

EXHIBIT F

0:00:02.340,0:00:02.590
[Unofficial Transcript]

0:00:02.360,0:00:03.770
[Mr. McHenry] The committee will now come
to order.

0:00:03.770,0:00:10.720
I will start today's hearing by reading
the Oversight and Government Reform Committee's

0:00:10.720,0:00:12.140
Mission Statement.

0:00:12.140,0:00:17.929
We exist to secure two fundamental principles.
First, Americans have the right to know that

0:00:17.929,0:00:24.609
the money Washington takes from them is well
spent. Second, Americans deserve an efficient,

0:00:24.609,0:00:27.180
effective government that works for them.

0:00:27.180,0:00:31.810
Our duty on the Oversight and Government Reform
Committee is to protect these rights. Our

0:00:31.810,0:00:36.090
solemn responsibility is to hold government
accountable to taxpayers because taxpayers

0:00:36.090,0:00:40.030
have a right to know what they get from their
government.

0:00:40.030,0:00:44.530
We will work tirelessly in partnership with
citizen watchdogs to deliver the facts to

0:00:44.530,0:00:50.140
the American people and bring them genuine
reform to the Federal bureaucracy. This is

0:00:50.140,0:00:52.649
the mission of the Oversight and Government
Reform Committee.

0:00:52.649,0:00:59.649
Today, we are here for a joint hearing between
the Oversight and Government Reform Subcommittee

0:01:06.889,0:01:13.889
on TARP, Financial Services and Bailouts of
Public and Private Programs and the Subcommittee

0:01:16.429,0:01:21.609
on Government Organization, Efficiency and
Financial Management on "SEC: Who's Watching

0:01:21.609,0:01:24.579
Wall Street's Watchdog."

0:01:24.579,0:01:30.259
When we called this hearing originally, we
were concerned about capital formation and

0:01:30.259,0:01:36.999
accountability at the SEC. A number of management
practices had come to light at that point

0:01:36.999,0:01:43.999
that we thought it would be important to discuss,
but a lot has changed just in the last two

0:01:44.689,0:01:49.770
weeks in terms of disclosures of what is happening
at the SEC and larger issues of concern with

0:01:49.770,0:01:56.770 the Chaitman Decl. Pg 3 of 73

management that strike the agency's credibility.
So there will be a lot of questions to that

0:01:58.719,0:02:00.469
regard in today's hearing.

0:02:00.469,0:02:05.189
[Mr. McHenry] I welcome the panel. I thank
you for being here and with that, I yield

0:02:05.189,0:02:10.090
to the Chairman of the full committee, my
customary five minutes as Subcommittee Chair,

0:02:10.090,0:02:11.530
for his opening statement.

0:02:11.530,0:02:15.599
[Chairman Issa] I thank the Chairman and I
thank him for his generosity with the opening

0:02:15.599,0:02:16.480
statement.

0:02:16.480,0:02:22.379
I, too, thought this hearing would be about
slightly different matters, but in recent

0:02:22.379,0:02:29.379
days, the committee has become aware of what
could be the greatest challenge to the SEC's

0:02:29.530,0:02:36.530
credibility since Bernie Madoff managed to
dup so many Americans, steal so much money

0:02:36.599,0:02:41.379
with his ponzi scheme, and escape the proper
scrutiny of the SEC for so long.

0:02:41.379,0:02:48.379
As we have learned, in 2009, the former General
Counsel, Mr. Becker, came to the SEC and informed

0:02:54.109,0:03:00.430
the Chairman that he had a potential conflict
of interest. We hope to learn exactly how

0:03:00.430,0:03:07.430
that was expressed, but in fact, he had received,
along with his siblings, \$2 million that came

0:03:07.780,0:03:14.780
from the liquidation of a Bernie Madoff fund
in 2005. That would be serious enough that

0:03:16.189,0:03:21.519
anyone would normally consider that he should
be recused from any activity related to the

0:03:21.519,0:03:23.840
Madoff after action.

0:03:23.840,0:03:29.230
Notwithstanding that, Mr. Becker, feeling
that this was, as we have understood it, a

0:03:29.230,0:03:36.230
de minimis amount relative to his estate,
in fact, not only continued to be involved,

0:03:36.590,0:03:43.590
but was instrumental in having the SEC inserted
into the process of trying to change how the

0:03:45.069,0:03:52.069
determination of how much money would be considered
to be eligible to be retained by those who

0:03:52.510,0:03:58.400

got their money out before the collapse of the Chairman Decl. Pg 4 of 73
how much would be clawed back for the greater

0:03:58.400,0:04:02.819
good of all those involved and victimized
by the ponzi scheme.

0:04:02.819,0:04:09.819
Had Mr. Becker's suggestions been taken,
in fact, Mr. Becker's mother's estate

0:04:10.150,0:04:16.410
of \$2 million would have benefited well all
those who were there to the end and lost so

0:04:16.410,0:04:19.660
much would have been victimized.

0:04:19.660,0:04:24.699
The problem we are going to be probing in
this hearing, in addition to others, is can

0:04:24.699,0:04:31.699
we trust an SEC where the process allows an
individual to inform the Chairwoman, to inform

0:04:31.949,0:04:37.789
the ethics individual who actually reports
to the General Counsel, and get effectively

0:04:37.789,0:04:44.630
a clean bill of health not to disclose and
not to recuse and even to be involved in an

0:04:44.630,0:04:51.090
action that had it been accepted, as our understanding
is, by the trustees, would have led to a distortion

0:04:51.090,0:04:55.650
of process in favor of Mr. Becker's family.

0:04:55.650,0:05:02.639
We take Mr. Becker at his word that, in fact,
he intended no wrong. We are willing to take

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factually in 25 minutes, the ethics individual
at SEC made a determination there was no problem

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and stuck by it. We are willing to hear the
Chairwoman here today.

0:05:15.770,0:05:20.379
What we are not willing to do, as the committee
that deals in waste, fraud and abuse, and

0:05:20.379,0:05:25.949
as a committee of Congress, all of us being
concerned a great deal about the confidence

0:05:25.949,0:05:32.889
in what the SEC represents in its oversight,
its fairness and its competence, we are not

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willing to accept that this can ever happen
again.

0:05:37.050,0:05:43.970
Mr. Chairman, I am not going to presume any
facts not yet in evidence. So far, we only

0:05:43.970,0:05:50.970
have a limited amount of reports, a clawback
procedure against Mr. Becker and Mr. Becker's

0:05:51.289,0:05:57.360
own interview here with some of our investigators.
Today, we have an opportunity to listen to

0:05:57.360,0:06:04.360 the Chairwoman Decl. Pg 5 of 73

the Chairwoman, to realize that she inherited an organization that had no flaws, but her

0:06:05.690,0:06:10.810 independent agency has, in fact, been the subject of the President's attention, her

0:06:10.810,0:06:12.310 attention.

0:06:12.310,0:06:19.310 We have not yet high confidence but high hope that the SEC will live up to its mandate,

0:06:19.430,0:06:25.650 not just of having a complex web of rules that tell public companies that if their own

0:06:25.650,0:06:32.419 child works for a company, they cannot be outside or independent officers or directors

0:06:32.419,0:06:38.210 of the company, or, for example, what a conflict is to the people who oversee, who can be on

0:06:38.210,0:06:44.120 the compensation committee, who cannot. It is a complex business but it relies on a belief

0:06:44.120,0:06:50.729 that the rules are necessary, they are implemented in a sensible way, uniformly and that they

0:06:50.729,0:06:51.740 are for a purpose.

0:06:51.740,0:06:58.020 I believe as we look further into the Becker matter, we are going to find the SEC failed

0:06:58.020,0:07:03.800 to have the highest level of fear so that public confidence could be maintained. I can

0:07:03.800,0:07:08.789 find no way out of this. I hope today we at least understand how this mistake came to

0:07:08.789,0:07:09.189 happen.

0:07:09.189,0:07:13.509 Mr. Chairman, once again, thank you for holding this important hearing and I yield back.

0:07:13.509,0:07:18.919 [Mr. McHenry] Thank you, Mr. Chairman. Thank you for your statement. With that, I recognize

0:07:18.919,0:07:22.780 the distinguished member from Illinois, the Chairman of the Subcommittee on TARP, Financial

0:07:22.780,0:07:25.509 Services and Bailouts of Public and Private Programs, Mr. Quigley, for five minutes.

0:07:25.509,0:07:32.509 I am sorry, I just promoted you to Chairman -- Ranking Member, Mr. Quigley.

0:07:36.629,0:07:43.530 [Mr. Quigley] Thank you so much, Mr. Chairman. I soon will be joined by Chairman Platts,

0:07:43.530,0:07:43.870 as well.

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I thank our witnesses for their time and the Chairman Decl. Pg 6 of 73
and their contributions.

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As we all know, in December of 2008, Bernard Madoff was arrested for running the largest

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ponzi scheme in American history. Losses from Madoff's fraud have been estimated at \$18

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billion, devastating the savings of many Americans.

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We all know the SEC missed Madoff despite being tipped off on several occasions. Although

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no regulatory agency should be expected to be perfect, a failure of this magnitude is

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clearly unacceptable.

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How did this happen? Many have blamed the SEC's outdated technology, which is woefully

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behind what the financial firms are using; many have blamed the SEC's silo problem

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which prevents coordination among the SEC's many offices. Another culprit that has been

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cited is the SEC's workforce which some argue includes too many lawyers and not enough

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industry veterans. We have all heard about the SEC employees viewing pornography instead

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of doing their jobs. These are reasonable concerns and all merit oversight from these

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two subcommittees.

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We have also heard about a potential conflict of interest from David Becker, formerly Senior

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Counsel at the SEC. It is my understanding that SEC IG David Katz is investigating this

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matter. I look forward to his report.

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Just a few years removed from Madoff and the worst financial crisis since the Great Depression,

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we need the SEC to do its job and do it well. The SEC is Wall Street's policeman. It was

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estimated by the 1934 Security Exchange Act to prevent fraud and abuse in the securities

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market. Creating the SEC was essential to restoring investor trust in our country's

0:09:22.860,0:09:28.910

economic system. If our economic system is

going to work, says Nobel laureate Joseph Stiglitz, then we have to make sure that what people gain when they cheat is offset by a

the Chairman Decl. Pg 7 of 73

0:09:28.910,0:09:35.910

Stiglitz, then we have to make sure that what people gain when they cheat is offset by a

0:09:35.940,0:09:37.770

system of penalties.

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Each year, the SEC brings hundreds of enforcement cases against firms that have sold fraudulent

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financial products. In 2010, for example, the SEC brought 681 enforcement cases against

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1,800 defendants.

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Just as all of us feel more comfortable in our neighborhoods when they are well policed,

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investors feel more comfortable buying financial products when the SEC is doing its job and

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prosecuting white collar crime. The SEC is more important today than ever before. Trust

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in our financial system is at its lowest ebb and this lack of trust is impeding our economic

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recovery.

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The financial regulatory reform law passed here was a step in the right direction, but

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it alone is insufficient. Laws have to be enforced and the SEC needs to be a strong

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enforcer.

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Unfortunately, the House-passed budget would reduce SEC funding from its current \$1.1 billion.

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For comparison's sake, City Bank spent \$1.6 billion on marketing alone in 2010. How is

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the SEC expected to police Wall Street when its entire budget is less than the marketing

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budget of one Wall Street Bank?

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In a May 2010 report, the Minority staff of the Oversight Committee found that the Commission

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security disclosure procedures are technologically backward. Yet, under the House-passed cuts,

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the SEC won't be able to continue any improvement of its IT systems. If the SEC's budget is

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reduced to 2008 levels, as some have proposed, the SEC would have to layoff 600 workers.

0:11:13.140,0:11:18.050 the Chaitman Decl. Pg 8 of 73

My point is this. Just a few years after the Madoff incident and the worst financial crisis

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in recent history, should we really be talking about taking 600 cops off Wall Street? Let

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us strengthen the SEC, not weaken it. Let us also ensure that the SEC undertakes common

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sense report to avoid past mistakes.

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Put another way, after 9/11, despite our intelligence failures, we did not cut the intelligence

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budget, we doubled it. It is my understanding that the SEC has already reorganized, brought

0:11:48.600,0:11:55.370
in a COO and designed a new tips referral system. These are all commendable steps.

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In the end, our country will be safer from another financial crisis if the SEC is well

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organized and well funded.

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I look forward to hearing from our witnesses who I hope will provide some constructive

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ideas on how to improve the SEC's oversight of financial markets.

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Thank you. I yield back.

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[Mr. McHenry] I thank the Ranking Member.

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With prior agreement on our side, Dr. Gosar from Arizona will have five minutes for an

0:12:21.610,0:12:22.270
opening statement.

0:12:22.270,0:12:23.790
[Mr. Gosar] Thank you, Mr. Chairman.

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Let me preface my comments with the following. I am not a financial analyst, I am not an

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accountant and I am not a lawyer, but I do have skin in the game, as do most Americans.

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Most Americans are compelled to invest in the markets through their employer-sponsored

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retirement plans whether they are 401(k) plans or public or union pension plans. The money

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largely goes to Wall Street.

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The public needs assurances that those who handle our money and our retirement futures

0:12:56.000,0:13:01.390 the Chaitman Decl. Pg 9 of 73

are playing by the rules and are being fair
and are honoring their fiduciary responsibilities

0:13:01.390,0:13:02.810
and obligations.

0:13:02.810,0:13:08.740
The public assurances come from the Securities
Exchange Commission. The SEC is supposed to

0:13:08.740,0:13:14.450
be guarding the hen house. This hearing raises
troubling questions. Who is watching the hen

0:13:14.450,0:13:18.070
house -- the fox or the guard?

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Mr. Chairman, recent news reports have focused
on David Becker's conflict of interest,

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but this hearing is not about a single incident.
This problem is actually far deeper and goes

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to the very heart of management practices
at the SEC.

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Every organization needs a set of mechanisms
to prevent or detect fraud, waste or mismanagement.

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These are commonly known as internal controls.
It would appear that internal controls at

0:13:44.760,0:13:47.350
the SEC are not functioning properly.

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One, the Government Accounting Office tells
us that the SEC is unable to reliably track

0:13:52.750,0:13:59.480
its finances because it cannot control its
own financial reporting. Two, the SEC's

0:13:59.480,0:14:04.680
Inspector General tells us that 30 employees,
including an assistant regional director,

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viewed sexually explicit materials at work
and only one was actually fired. Was anyone

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else ever disciplined? Three, now the news
media tells us that the SEC's General Counsel

0:14:16.870,0:14:23.050
was allowed to advise the Commissioners on
the Madoff case when he had a personal, financial

0:14:23.050,0:14:24.480
interest.

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All these matters represent a breakdown in
oversight and management, a failure of internal

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controls. The sad irony is that the SEC is
the Federal agency in charge of making sure

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publicly traded companies have effective internal
controls and public governance structures.

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In fact, Mr. Chairman, if these events occurred at a publicly traded company, the SEC would be investigating itself and what would be the penalties?

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be investigating itself and what would be the penalties?

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Federal agencies are subject to the Federal Managers Financial Integrity Act which dictates

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that they provide annual assurances to Congress that their internal controls are adequate.

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This law has been in effect since 1982 and governs not just financial management, but

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program management as well.

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The Federal Managers Financial Integrity Act is within this committee's jurisdiction.

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Therefore, this hearing has an important legislative and oversight purpose in the Commission's

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compliance with the law and others. Mr. Chairman, the anecdotal example of internal breakdowns

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are symptoms of a much larger systemic breakdown. Since there is no SEC to investigate the SEC,

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today I challenge my colleagues.

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Thank you, Mr. Chairman. I yield the balance of my time.

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[Mr. McHenry] I thank the gentleman.

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I now recognize the Ranking Member of the Subcommittee on Government Organization, Efficiency

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and Financial Management, Mr. Towns, former Chairman of the full Committee, for five minutes.

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[Mr. Towns] Thank you very much, Mr. Chairman, and thank you for holding this hearing today.

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The SEC is at an important crossroads. It is successfully emerging from a troublesome

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period leading up to collapse of the country's financial system. It is paused to take the

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lead in reforming Wall Street and preventing another financial meltdown through its enforcement

0:16:14.940,0:16:17.860

of the Dodd-Frank Act.

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This hearing will example financial management, the workforce and internal operations at the

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SEC. It is encouraging to see all the new

initiatives Chairman Schapiro has the Chairman Decl. Pg 11 of 73

0:16:30.220,0:16:36.470
in the last two years. The SEC hired its first
Chief Operating Officer to oversee the accounting

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functions, financial reporting and internal
controls, and we salute you for that, Madam

0:16:42.640,0:16:43.300
Chair.

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The SEC has also hired a new Chief Information
Officer to oversee its information technology

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functions. The Chairperson has restructured
the entire Enforcement Division, recruited

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experts and has put a new governing structure
in place. This is commendable as well.

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As with any organization, lapses can, do and
will occur. I understand the SEC has taken

0:17:10.100,0:17:16.230
disciplinary action against those who have
been accused of misconduct at the Commission

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and that greater accountability has been integrated
into the disciplinary process.

0:17:20.579,0:17:27.579
The SEC is responsible for safeguarding the
confidence of American investors in the financial

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markets and I hope our hearing today will
help our financial watchdog fulfill its mission.

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I now yield the balance of my time to the
Ranking Member of the full Committee.

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[Mr. Cummings] I thank the gentleman for yielding.

0:17:43.240,0:17:47.750
This committee is responsible for ensuring
that our government operates effectively and

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efficiently. That means holding public officials
to the highest standards, demanding excellence

0:17:53.480,0:17:59.120
at every turn and eliminating even the appearance
of impropriety.

0:17:59.120,0:18:03.539
Today, the committee intends to examine against
David Becker, the former General Counsel of

0:18:03.539,0:18:10.539
the SEC. I do not know Mr. Becker, I have
never met him, never talked to him, and the

0:18:10.659,0:18:15.370
Minority was excluded from Mr. Becker's
interview when Chairman Issa's staff interviewed

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him, but I do want to make sure that everyone
who comes before this committee is treated

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fairly, including Mr. Becker, Chairman, the Chairman Decl. Pg 12 of 73
and others.

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If I understand the facts correctly, Mr. Becker's parents invested about \$500,000 with Bernie

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Madoff in 2000. Mr. Becker's mother died in 2004 and when her funds were divided among

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Mr. Becker and his two brothers in 2006, they had increased to about \$2 million.

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Mr. Becker joined the SEC in 2009, he notified the SEC officials about his inheritance and

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when issues arose relating to his inheritance, he sought advice from SEC ethics officials

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and received clearance to proceed. Some have suggested that Mr. Becker may have benefited

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financially from the SEC's later decisions, but it appears that the opposite may be true.

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The basic question the SEC faced was whether to support an asset valuation method used

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by the trustee representing the Madoff victims, called the cash-in-cash-out method, or a different

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valuation method proposed by several law firms called the last statement method.

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Under the first, Mr. Becker's inheritance would be subject to litigation to recover

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or clawback assets on behalf of the Madoff victims. Under the second, it appears that

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it would not. Based on the court filings, the SEC chose to support the first method.

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This meant that the trustee could sue Mr. Becker and his brothers to recover some of

0:19:39.370,0:19:43.129

his mother's inheritance which is exactly what happened.

0:19:43.129,0:19:48.639

Mr. Chairman, in your briefing memo for today's hearing, you acknowledged that the SEC's

0:19:48.639,0:19:54.669

decision was "actually detrimental to Mr. Becker's interest." Nevertheless, I have

0:19:54.669,0:19:59.850

serious questions about the conclusions of the SEC's Ethics Office, Chairman Schapiro,

0:19:59.850,0:20:06.149

that these issues had no effect on Mr. Becker's financial interest. Someone else of questionable

0:20:06.149,0:20:11.190

character might have tried to take advantage

of this situation. I also have questions on the Chairman Decl. Pg 13 of 73

0:20:11.190,0:20:17.429
whether Mr. Becker's interests should have
been disclosed more widely within the SEC

0:20:17.429,0:20:20.950
and I hope we can learn more about this process
today.

0:20:20.950,0:20:27.950
I also invite my Republican colleagues to
join us in making sure that the SEC has all

0:20:27.990,0:20:34.990
the resources it needs. There is a proposed
cutting of \$148 million from their budget

0:20:35.110,0:20:38.999
and we do need a robust SEC.

0:20:38.999,0:20:44.249
Chairwoman Schapiro, I read what you have
done and what you have accomplished. You inherited

0:20:44.249,0:20:50.090
a mess. You inherited an agency that Senator
McCain said the former Chair should resign,

0:20:50.090,0:20:52.490
so we understand that.

0:20:52.490,0:20:56.139
Again, I am looking for a fair hearing and
one where we can get to the bottom of all

0:20:56.139,0:20:56.620
of this.

0:20:56.620,0:20:57.720
I yield back.

0:20:57.720,0:21:01.480
[Mr. McHenry] I thank the Ranking Member.

0:21:01.480,0:21:04.899
All members may have seven days to submit
opening statements for the record.

0:21:04.899,0:21:09.499
I will now recognize the panel. We have the
Honorable Mary Schapiro, Chairman, Securities

0:21:09.499,0:21:16.499
and Exchange Commission; Mr. Jeffrey Risinger,
Director, SEC Office of Human Resources; Mr.

0:21:19.360,0:21:25.129
Jonathan Jack Katz, the former Secretary of
the Securities and Exchange Commission for

0:21:25.129,0:21:32.129
20 years; Mr. Stephen Crimmins, a securities
attorney with K&L Gates -- he served as Deputy

0:21:34.269,0:21:41.269
Chief Litigation Counsel of the SEC's Enforcement
Division from 1993-2001; and Ms. Helen Chaitman,

0:21:44.009,0:21:51.009
the attorney representing approximately 350
investors in Mr. Bernard L. Madoff's investment

0:21:51.049,0:21:53.570
securities firm.

0:21:53.570,0:21:58.580
It is the policy of the committee that all
witnesses be sworn before they testify. Please

0:21:58.580,0:21:59.899

rise and raise your right hands. the Chaitman Decl. Pg 14 of 73

0:21:59.899,0:22:06.899

Do you solemnly swear or affirm that the testimony you are about to give this committee will

0:22:09.259,0:22:12.980

be the truth, the whole truth, and nothing but the truth?

0:22:12.980,0:22:16.009

[Witnesses respond in the affirmative]

0:22:16.009,0:22:20.950

[Mr. McHenry] The record will reflect that all the witnesses answered in the affirmative.

0:22:20.950,0:22:22.649

With that, I thank you.

0:22:22.649,0:22:28.620

We will begin at this time with Chairman Schapiro. I think you heard the members' opening statements

0:22:28.620,0:22:33.679

and we would love to hear your comments, especially about this conflict that has been discussed.

0:22:33.679,0:22:34.539

Ms. Schapiro?

0:22:34.539,0:22:39.289

[Ms. Schapiro] Thank you very much, Chairman McHenry, Ranking Members Quigley and Towns,

0:22:39.289,0:22:41.519

members of the Subcommittee.

0:22:41.519,0:22:45.039

Thank you for inviting me to testify today regarding the financial management, workforce

0:22:45.039,0:22:49.139

management and internal operations of the Securities and Exchange Commission. As you

0:22:49.139,0:22:53.809

know, I am joined by Jeff Risinger, Director of our Office of Human Resources.

0:22:53.809,0:22:58.710

When I arrived at the SEC two years ago, the agency was reeling from a variety of economic

0:22:58.710,0:23:05.529

events and mission failures and in need of across the board reform. We needed more experts,

0:23:05.529,0:23:10.330

better training, improved communication among our divisions and offices and an effective

0:23:10.330,0:23:15.820

strategy for handling tips and complaints. These challenges were exacerbated by inadequate

0:23:15.820,0:23:21.169

infrastructure, material weaknesses in financial management and a culture that had failed to

0:23:21.169,0:23:27.039

keep up with an increasingly complex financial marketplace. We immediately and comprehensively

0:23:27.039,0:23:32.080

set out to change the way the Commission worked. My written testimony details the reforms of

0:23:32.080,0:23:35.159

the last two years, but I would like to highlight a few.

0:23:35.159,0:23:40.240

We brought new leadership and senior management to virtually every office and hired the Commission's

0:23:40.240,0:23:45.940

first Chief Operating Officer. We revitalized and restructured our enforcement and examination

0:23:45.940,0:23:51.679

operations and revamped our handling of tips and complaints. We broke down internal silos

0:23:51.679,0:23:57.240

and created a culture of collaboration. We recruited more staff with specialized expertise

0:23:57.240,0:24:02.619

and real world experience and expanded our training. We enhanced safeguards for investors'

0:24:02.619,0:24:06.690

assets through new rules and the leveraging of public accounting firms.

0:24:06.690,0:24:12.240

Although we have made significant progress, we continue to seek ways to improve our operations.

0:24:12.240,0:24:18.559

After all, our core responsibility is pursuing fraud, reviewing corporate disclosures, overseeing

0:24:18.559,0:24:23.119

the largest capital markets in the world and inspecting the activities of thousands of

0:24:23.119,0:24:27.820

financial intermediaries our essential to restoring investor confidence in the wake

0:24:27.820,0:24:29.869

of the financial crisis.

0:24:29.869,0:24:36.399

Our funding has presented challenges. From 2005 to 2007, the SEC experienced three years

0:24:36.399,0:24:42.549

of frozen or reduced budgets, forcing a 10 percent reduction in the agency staff. Similarly,

0:24:42.549,0:24:48.110

the agency's investment in new or advanced systems declined approximately 50 percent

0:24:48.110,0:24:50.240

between 2005 and 2009.

0:24:50.240,0:24:57.240

While SEC staffing levels are just now returning to 2005 levels, the securities markets have

0:24:57.549,0:25:03.480

undergone tremendous growth since then. Indeed, during the past decade, trading volume has

0:25:03.480,0:25:08.450

more than doubled, the number of investment advisors grew by 50 percent and the funds

0:25:08.450,0:25:15.450

they manage increased to \$38 trillion. Operating under the continuing resolution only exacerbates

0:25:15.509,0:25:19.559

the imbalance between our resources and the magnitude of our mission.

0:25:19.559,0:25:25.059

At the same time, the Dodd-Frank is significantly

expanding the SEC's responsibilities for the Chairman Decl. Pg 16 of 73

0:25:25.059,0:25:30.149
the derivatives market, hedge fund advisors
and union support advisors. In addition, we

0:25:30.149,0:25:34.139
are also charged with enhanced supervision
of rating agencies, heightened regulation

0:25:34.139,0:25:39.009
of asset-backed securities and the creation
of a new whistleblower program.

0:25:39.009,0:25:42.869
For these reasons, I am concerned that without
additional resources, we will not be able

0:25:42.869,0:25:47.529
to fulfill these responsibilities in the manner
in which Congress intends and the American

0:25:47.529,0:25:49.950
people deserve.

0:25:49.950,0:25:53.509
Finally, I would like to address the issue
of former Counsel David Becker's role in

0:25:53.509,0:25:58.059
light of his mother's ownership of an account
at Madoff that was closed years before the

0:25:58.059,0:26:00.399
fraud was revealed.

0:26:00.399,0:26:05.909
Mr. Becker informed me, I believe shortly
after he arrived in 2009, that his mother

0:26:05.909,0:26:10.549
had an account with Madoff before she died
and that it had been closed a number of years

0:26:10.549,0:26:15.309
before he returned to the agency. It did not
strike me that his mother's account closed

0:26:15.309,0:26:20.480
years ago would present a financial conflict
of interest.

0:26:20.480,0:26:25.340
Mr. Becker was, and is, an experienced attorney
who had served as General Counsel under three

0:26:25.340,0:26:31.049
chairmen. I relied on him to present any ethics
related issues to the Ethics Counsel and follow

0:26:31.049,0:26:35.330
the Ethics Counsel's advice. I understand
that is what he did.

0:26:35.330,0:26:40.720
When I returned to the agency in 2009 having
served there in the late 1980s and early 1990s,

0:26:40.720,0:26:45.669
appointed by President Reagan and President
Bush, I read many letters from Madoff's

0:26:45.669,0:26:51.730
victims, people who have lost everything.
My entire focus was on how to fix the SEC

0:26:51.730,0:26:56.330
to ensure that another tragedy like Madoff
could never happen again, and how to make

0:26:56.330,0:27:01.169

sure within the contours of the Securities Investor Protection Act that we could get the Chairman Decl. Pg 17 of 73

0:27:01.169,0:27:05.269
the most money to people who were literally losing their homes.

0:27:05.269,0:27:09.649
I am proud of how much we have accomplished in the past two years working tirelessly with

0:27:09.649,0:27:14.399
an extraordinary staff to improve the operation of the Commission and enhance the public's

0:27:14.399,0:27:18.549
perception of the integrity of our work and the fairness of our decisions.

0:27:18.549,0:27:24.110
While Mr. Becker did solicit and follow advice from the ethic's counsel, I realize in light

0:27:24.110,0:27:29.029
of this incident that as Chairman, I have to ensure that we go beyond what may be required

0:27:29.029,0:27:34.330
in any particular situation. On matters like these, I have to be looking around the next

0:27:34.330,0:27:40.129
corner, looking beyond the horizon and thinking above and beyond what may be appropriate advice

0:27:40.129,0:27:44.570
from the Ethics Counsel to make sure nothing occurs that could raise questions about the

0:27:44.570,0:27:46.940
Commission's mission or processes.

0:27:46.940,0:27:51.429
To ensure that this matter is fully reviewed, I requested that the SEC Inspector General

0:27:51.429,0:27:56.580
conduct an independent review and analysis of all of the relevant facts. In addition,

0:27:56.580,0:28:01.369
under the leadership of our new Ethics Counsel, we have been performing a top to bottom review

0:28:01.369,0:28:03.159
of our ethics program.

0:28:03.159,0:28:06.820
In the meantime, I look forward to answering questions about this matter to the best of

0:28:06.820,0:28:11.570
my recollection, but I can say to this committee with assuredness, we will learn from this

0:28:11.570,0:28:18.570
experience and we will take all actions necessary to earn the trust the public places in us.

0:28:18.669,0:28:19.129
Thank you.

0:28:19.129,0:28:20.320
[Mr. McHenry] Thank you, Chairman.

0:28:20.320,0:28:25.480
I would counsel the committee that the lights before you, at one minute to go, it will turn

0:28:25.480,0:28:31.739
yellow and red means stop. With that, if you

could keep your comments to five minutes. the Chairman Decl. Pg 18 of 73

0:28:31.739,0:28:32.139
would certainly appreciate it.

0:28:32.139,0:28:33.840
Mr. Risinger?

0:28:33.840,0:28:38.239
[Mr. Risinger] Mr. Chairman, I am happy to
be before the committee today. I look forward

0:28:38.239,0:28:42.409
to taking your questions. I don't have any
further statements.

0:28:42.409,0:28:47.960
[Mr. McHenry] Five seconds. That might be
a record. Thank you and congratulations.

0:28:47.960,0:28:48.769
Mr. Katz.

0:28:48.769,0:28:55.769
[Mr. Katz] Good afternoon, Chairman McHenry,
Chairman Platz, Ranking Member Quigley, Ranking

0:28:58.350,0:29:03.299
Member Towns, members of the two subcommittees.
It really is an honor to be invited to testify

0:29:03.299,0:29:05.929
on the operations of the Securities and Exchange
Commission today.

0:29:05.929,0:29:11.350
It is a matter of great interest and importance
to me personally because for most of my career,

0:29:11.350,0:29:17.019
I was an employee of the SEC. For 20 of those
years, I served as the Commission's Secretary,

0:29:17.019,0:29:21.549
which was one of those unusual positions that
afforded me a rare opportunity to participate

0:29:21.549,0:29:25.470
firsthand in virtually every aspect of the
Commission's responsibilities.

0:29:25.470,0:29:31.379
I retired from the Commission in January of
2006. In the five intervening years, I have

0:29:31.379,0:29:37.460
really been fortunate. I have served as a
technical advisor to a variety of securities

0:29:37.460,0:29:42.139
commissions in governments in emerging market
countries and have also had the opportunity

0:29:42.139,0:29:45.429
to speak and write about financial regulation
in the United States.

0:29:45.429,0:29:51.330
In 2008, the Center for Capital Market Competitiveness
at the U.S. Chamber of Commerce invited me

0:29:51.330,0:29:54.860
to conduct a study and to write a report on
how to improve the efficiency and effectiveness

0:29:54.860,0:30:01.860
of the SEC. I wrote this study based upon
interviews with more than 50 current and former

0:30:02.940,0:30:08.179
SEC staff persons and Commissioners who agreed

to be interviewed and gave me their own Chair Decl. Pg 19 of 73

0:30:08.179,0:30:12.909
insights and criticisms, the best of which
I shamelessly stole.

0:30:12.909,0:30:19.480
In addition to this report, in 2009, I wrote
a second article for the Pittsburgh Law Review.

0:30:19.480,0:30:24.989
This article focused primarily on the Enforcement
Division of the SEC, a subject that I did

0:30:24.989,0:30:29.860
not discuss in the Chamber report. Unlike
the Chamber report which reflected the collective

0:30:29.860,0:30:35.909
views of a wide range of people, this article
was really my own personal views. In both

0:30:35.909,0:30:41.369
documents, I attempted to constructively identify
what could be done to make the agency a more

0:30:41.369,0:30:45.379
effective capital market regulator.

0:30:45.379,0:30:49.769
Today, I am aware that one of the focal points
is, of course, the SEC's budget and question

0:30:49.769,0:30:56.769
of resources. I have to answer that I, like
most people, agree that the SEC does need

0:30:56.970,0:31:03.320
more staff to carry out its responsibilities,
but why more money and more staff is necessary,

0:31:03.320,0:31:10.320
I don't think it is sufficient. To do the
job well, the agency has to reexamine how

0:31:10.429,0:31:15.639
it does that job and I think it has to make
changes. I think it is time to critically

0:31:15.639,0:31:20.359
self examine the core functions and recognize
that most of them just haven't been very

0:31:20.359,0:31:21.940
effective.

0:31:21.940,0:31:28.909
My concern is that just having more people
do more of the same thing in the same way

0:31:28.909,0:31:34.480
is not the best solution. I think we need
fundamental changes in organization and management

0:31:34.480,0:31:39.940
and mission definition. Chairman Schapiro
has identified a number of the initiatives

0:31:39.940,0:31:42.600
she has undertaken and I commend her on them.

0:31:42.600,0:31:47.559
I worked for seven Chairmen and four Acting
Chairmen and I will tell you that with the

0:31:47.559,0:31:51.450
possible exception of John Schad, the first
Chairman I worked with, Chairman Schapiro

0:31:51.450,0:31:55.359
has probably focused more of her attention

0:31:55.359,0:32:00.509
the other intervening Chairmen, but again,
these are first steps and I think more needs

0:32:00.509,0:32:02.379
to be done.

0:32:02.379,0:32:09.379
I want to highlight five points that are contained
in my witness statement. I don't have time

0:32:10.210,0:32:13.659
to go through all of them but if people have
questions, I would be happy to do it.

0:32:13.659,0:32:19.289
I think the agency needs a partial reorganization.
I advocate what is referred to internationally

0:32:19.289,0:32:24.570
as the Twin Peaks approach, one division that
deals with all aspects of retail financial

0:32:24.570,0:32:30.759
services regulation and another division that
handles all credential functions, the so-called

0:32:30.759,0:32:35.179
safety soundness and stability functions.

0:32:35.179,0:32:40.499
I think the agency needs a Chief Operating
Officer. I applaud Chairman Schapiro for appointing

0:32:40.499,0:32:46.019
one, but I think you have to go further. You
need a Chief Operating Officer who really

0:32:46.019,0:32:50.509
is that and has more than the title. The way
I distinguish it is when you try and build

0:32:50.509,0:32:57.509
a house, the architect and owner design the
house, but you need a general contractor to

0:32:58.429,0:33:02.539
actually get it done, to build it well, to
keep you on budget and on time.

0:33:02.539,0:33:09.539
I see my time is almost up, so I will quickly
identify two other things. I think there needs

0:33:09.869,0:33:15.399
to be substantial changes in enforcement.
When you look at Madoff, you understand, in

0:33:15.399,0:33:20.070
my opinion, this was not a question of culpability,
a few bad people doing bad things.

0:33:20.070,0:33:25.989
Madoff is similar to other failures of the
Commission in the past. These are structural

0:33:25.989,0:33:31.220
issues that go with how the Division of Enforcement
frames its responsibilities and conducts those

0:33:31.220,0:33:38.220
responsibilities. It has to be proactive,
not reactive, and its results have to be aimed

0:33:38.859,0:33:44.200
at remediation, not penalties. Penalties are
the function of the Justice Department. In

0:33:44.200,0:33:50.830

that respect, I would advocate very strongly the Chairman Decl. Pg 21 of 73
for beefing up a Criminal Securities Office

0:33:50.830,0:33:55.279
in the Department of Justice so that the agency
doesn't have to rely upon the Southern District

0:33:55.279,0:33:58.259
of New York which has limited jurisdiction.

0:33:58.259,0:34:02.159
Just in closing, I want to mention what I
think is the most important recommendation

0:34:02.159,0:34:09.159
of all, the need for a special study of the
securities markets. In 1961, the SEC was similarly

0:34:09.230,0:34:13.160
troubled, the markets were in similar upheaval.

0:34:13.160,0:34:18.780
Congress appropriated funds to create a special
study of the securities market. A group of

0:34:18.780,0:34:24.640
technocrats, experienced people in government
and from industry spent 18 months studying

0:34:24.640,0:34:31.640
the markets and studying how the SEC functioned.
They issued a five volume report that literally

0:34:31.820,0:34:38.419
for 25 years was the touchstone for everything
the SEC did. I think we need another one.

0:34:38.419,0:34:40.950
Thank you very much for the time. I am happy
to answer questions.

0:34:40.950,0:34:43.000
[Mr. McHenry] Thank you, Mr. Katz.

0:34:43.000,0:34:44.550
Mr. Crimmings, you are recognized for five
minutes.

0:34:44.550,0:34:48.060
[Mr. Crimmins] Thank you, Mr. Chairman.

0:34:48.060,0:34:52.450
Chairman McHenry, Chairman Platts, Ranking
Member Quigley and Ranking Member Cummings,

0:34:52.450,0:34:55.790
thank you for hearing us today.

0:34:55.790,0:35:00.830
Over the last decade, we have seen an explosion
and the size and complexity of our capital

0:35:00.830,0:35:05.950
markets, exponential increases in trading
volume, workers doing thousands of trades

0:35:05.950,0:35:11.310
in a few seconds instead of maybe a hundred
trades a day, high speed, computer driven

0:35:11.310,0:35:17.530
trading strategies, fragmentation of trading
away from the exchanges and into dark pools

0:35:17.530,0:35:20.950
and ECNs and 24/7 globalized stock trading.

0:35:20.950,0:35:25.940
We have seen investment products become so
complex that the sophisticated traders that

0:35:25.940,0:35:31.330 the Chaitman Decl. Pg 22 of 73

trade them don't always fully understand
what they are and scary systemic risk that

0:35:31.330,0:35:33.510
threatens recurring crises.

0:35:33.510,0:35:39.280
Now after the crash, we see many investors
pulling out and staying out of stocks and

0:35:39.280,0:35:46.280
mutual funds. Investors are still scared and
sidelined with their decimated 401(k)s. Investor

0:35:46.680,0:35:52.640
perceptions are critical. These people will
be unwilling to continue to risk their capital

0:35:52.640,0:35:58.500
or risk their capital again if Wall Street's
cop on the beat becomes the cop on furlough.

0:35:58.500,0:36:03.830
Last summer, in the depths of the worst financial
crisis in 80 years, Congress recognized that

0:36:03.830,0:36:08.490
the Securities and Exchange Commission needed
twice the budget to be relevant in today's

0:36:08.490,0:36:15.220
huge, complex and hyper-charged markets. Whatever
issues anyone in Congress has with the SEC,

0:36:15.220,0:36:20.050
I would respectfully suggest that the answer
is not to starve in the wake of the crash,

0:36:20.050,0:36:23.900
the answer is not to create an environment
where it will be easier for the frauds just

0:36:23.900,0:36:24.920
to prey on investors.

0:36:24.920,0:36:30.580
Instead, the answer is for all of us, here
and now, to commit firmly to do whatever it

0:36:30.580,0:36:36.910
takes to make the SEC the strong and smart
overseer that our capital markets deserve

0:36:36.910,0:36:39.310
to recover and grow.

0:36:39.310,0:36:44.180
One thing is of paramount importance. Nobody
is asking the taxpayer for one dime to fund

0:36:44.180,0:36:50.020
the SEC. What is often forgotten in the discussion
is that American taxpayers pay absolutely

0:36:50.020,0:36:56.880
nothing to run the SEC each year. Under 1996
legislation adopted by a Republican Congress

0:36:56.880,0:37:02.760
and a Democratic President, the money to run
the SEC comes entirely from Wall Street transaction

0:37:02.760,0:37:07.970
fees and assessments designed to cover the
entire cost of the SEC's budget.

0:37:07.970,0:37:13.300
Because of this a substantially increased
SEC appropriation paid for with this successful

0:37:13.300,0:37:19.600 the Chaitman Decl. Pg 23 of 73

15-year old funding mechanism would require
no tax dollars whatsoever and would add nothing

0:37:19.600,0:37:25.480
to the deficit. In short, the Wall Street
user fee money is already there. Congress

0:37:25.480,0:37:28.640
just has to let the SEC use it to police Wall
Street.

0:37:28.640,0:37:35.640
Madoff was a tragedy. The SEC missed Madoff
and Chairman Schapiro and others have not

0:37:37.860,0:37:44.310
tried to evade or run away from that fact,
but so did FINRA whose predecessor installed

0:37:44.310,0:37:49.130
Madoff as its Vice Chairman, and so did the
Justice Department, and so did the New York

0:37:49.130,0:37:54.060
Attorney General with Madoff right in his
own backyard, and so did how many others,

0:37:54.060,0:37:58.920
including the sophisticated financial services
firms that regularly interacted with him.

0:37:58.920,0:38:04.860
Madoff was an industry icon and idol and nobody
knew that he was really a crook.

0:38:04.860,0:38:11.240
Yet, through thick and thin, the SEC was out
there bringing almost 700 complex cases for

0:38:11.240,0:38:16.860
enforcement every year against almost 2,000
defendants every year and with greater funding,

0:38:16.860,0:38:19.030
could have brought far more.

0:38:19.030,0:38:23.690
We hear criticism of the SEC's recently
departed General Counsel, David Becker. His

0:38:23.690,0:38:29.510
power, I suggest, is misunderstood. He was
not the Secretary of some Cabinet level department.

0:38:29.510,0:38:35.580
Instead, he was the General Counsel, one of
multiple senior advisors at a five member,

0:38:35.580,0:38:41.830
bipartisan commission, composed of two Republicans,
two Democrats and one independent.

0:38:41.830,0:38:46.790
Whatever his power, the point is that he did
not use it to benefit himself. The month after

0:38:46.790,0:38:53.300
he left the agency still to this day, it remains
unclear exactly how any of the Madoff related

0:38:53.300,0:39:00.070
claims are ultimately going to be calculated.
In any event, the Madoff Trustee, Irving Packard

0:39:00.070,0:39:03.790
reports to the court, not to the SEC, and
he will make his own decisions on what he

0:39:03.790,0:39:05.900
wants to claim.

0:39:05.900,0:39:10.380

Finally, we need some perspective. What we are talking about is whether the Dorothy Becker

0:39:10.380,0:39:16.590

estate will get to keep the \$500,000 that Dorothy originally invested or whether it

0:39:16.590,0:39:22.190

will also get to keep some small amount on top, the inflation adjustment. That seems

0:39:22.190,0:39:26.390

to be where this is all breaking down and being discussed.

0:39:26.390,0:39:31.660

The senior ethics official with whom Becker consulted ruled that whatever theoretical

0:39:31.660,0:39:37.150

conflict this may actually have presented, it did not create such a conflict that he

0:39:37.150,0:39:42.500

needed to recuse himself, based on what was known at that time. The possibility of a claim

0:39:42.500,0:39:48.420

against this estate of a particular type at some future date was at that time speculative.

0:39:48.420,0:39:51.690

Now we know more, of course.

0:39:51.690,0:39:55.030

[Mr. McHenry] Thank you for your testimony.

0:39:55.030,0:39:58.110

Ms. Chaitman, you are recognized for five minutes.

0:39:58.110,0:40:05.110

[Ms. Chaitman] Thank you so much for giving me this opportunity to speak to you. I speak

0:40:09.940,0:40:16.940

on behalf of approximately 500 Madoff investors whom I represent and I speak, as well, on

0:40:17.640,0:40:24.250

behalf of every American who hopes to save enough money in his lifetime to retire on

0:40:24.250,0:40:31.250

that money. I speak on behalf of every American who relies upon the brass plaque on his broker's

0:40:31.620,0:40:38.620

desk, SIPC. We are told when we invest that every account is insured up to \$500,000 and

0:40:43.120,0:40:50.120

yet, SIPC has taken the position in the Madoff case that the law doesn't apply to it.

0:40:51.070,0:40:56.430

If I had to grade the SEC's performance with respect to its essential function of

0:40:56.430,0:41:03.430

protecting investors with respect to the Madoff case, I would give the SEC and "F." The

0:41:03.770,0:41:09.390

SEC, instead of enforcing the law against SIPC, which it is charged by Congress with

0:41:09.390,0:41:16.390

the obligation to do, instead of enforcing

the law, we now know that in January, 2009, the Chairman Decl. Pg 25 of 73

0:41:17.470,0:41:24.130
the SEC agreed with SIPC that for the first time in its history, it would not pay SIPC

0:41:24.130,0:41:31.130
insurance to each Madoff victim based upon the investor's last statement.

0:41:32.100,0:41:38.270
SIPC is an insurance entity established by Congress which has the power to assess the

0:41:38.270,0:41:45.120
Wall Street firms who raised the funds to protect investors. The statute doesn't give

0:41:45.120,0:41:52.120
SIPC the right to define how it is going to allow a claim. The statute mandates that a

0:41:52.240,0:41:59.240
claim is based upon the customer's last statement. Yet, the SEC joined in SIPC's

0:41:59.930,0:42:01.540
violation of the statute.

0:42:01.540,0:42:08.540
This is not just my opinion, this is the opinion of Chairman Garrett who has proposed H.R.

0:42:10.590,0:42:17.320
757 and in proposing H.R. 757, which is simply a clarification of the law, one could view

0:42:17.320,0:42:24.320
H.R. 757 as a statement to the SEC, you cannot avoid the law and SIPC cannot avoid the law.

0:42:27.870,0:42:33.750
Mr. Garrett made a statement when he introduced this bill that SIPC has violated the law and

0:42:33.750,0:42:38.140
the trustee in the Madoff case has violated the law.

0:42:38.140,0:42:45.140
If you recall, in 1970 when SIPC was enacted, investors were encouraged to relinquish the

0:42:45.550,0:42:52.550
protection of having certificated securities. That was something that Wall Street wanted.

0:42:53.160,0:43:00.160
In exchange for relinquishment of that protection, investors were promised SIPC insurance. SIPC

0:43:01.280,0:43:08.280
insurance was raised to \$500,000 in 1978; it was never raised thereafter.

0:43:09.120,0:43:14.090
In the Madoff case, SIPC decided that was going to be too expensive for its Wall Street

0:43:14.090,0:43:21.090
members and so it was going to try to come with an entirely new basis for insuring accounts.

0:43:21.760,0:43:26.760
For the first time in SIPC's history, it decided it didn't insure the balance on

0:43:26.760,0:43:32.190
the last statement, it only insured the net investment over the life of the account which

0:43:32.190,0:43:37.150 the Chaitman Decl. Pg 26 of 73
might have been 20 years, 30 years, 40 years.

0:43:37.150,0:43:43.460
There is no evidence that any investor in
today's stock market has or what he owns

0:43:43.460,0:43:48.550
other than the statements he receives from
his broker. We don't have the luxury of

0:43:48.550,0:43:55.080
going back to certificated securities. The
Internal Revenue Service relies upon those

0:43:55.080,0:43:59.680
statements, every investor relies upon those
statements for planning their retirement,

0:43:59.680,0:44:06.680
for their estate plans for their children.
There is no basis in law for what the SEC

0:44:06.960,0:44:08.830
did in this case.

0:44:08.830,0:44:15.490
This is not a question of insufficient funding
for the SEC. This is a question of doing its

0:44:15.490,0:44:19.280
mission which is to protect the investor.

0:44:19.280,0:44:24.230
I am not here to opine on whether or not Mr.
Becker had a conflict of interest. I don't

0:44:24.230,0:44:31.180
think there can be any doubt about it. Whether
he advocated the constant dollar adjustment,

0:44:31.180,0:44:37.850
which obviously reduced his own exposure,
or whether he said to the SEC when he came

0:44:37.850,0:44:44.470
onboard in February 2009, you have made an
illegal agreement with SIPC which would have

0:44:44.470,0:44:51.250
worked to his advantage, his judgment was
clouded because everyone in the SEC forgot

0:44:51.250,0:44:53.090
the law.

0:44:53.090,0:44:58.080
There is one way to remedy this and to restore
confidence in the capital markets for the

0:44:58.080,0:45:03.570
average American. That is to enact H.R. 757.

0:45:03.570,0:45:05.500
Thank you.

0:45:05.500,0:45:11.090
[Mr. McHenry] Thank you for your testimony.
I thank the panel for its testimony. With

0:45:11.090,0:45:17.200
that, we will begin questioning on our side
by Dr. Gosar of Arizona. He is recognized

0:45:17.200,0:45:17.800
for five minutes.

0:45:17.800,0:45:22.790
[Mr. Gosar] Chairman Schapiro, when David
Becker, your brand new General Counsel, first

0:45:22.790,0:45:28.410 the Chaitman Decl. Pg 27 of 73

came to you in February 2009 and said, my mother had an account with Bernie Madoff,

0:45:28.410,0:45:32.230
why didn't you ask him any questions about it? Why didn't you even ask simple questions

0:45:32.230,0:45:33.230
like, how much money?

0:45:33.230,0:45:39.290
[Ms. Schapiro] Congressman, to the best of my recollection, and just so I can be clear,

0:45:39.290,0:45:43.560
I haven't looked at any emails or whether there might be any contemporaneous notes or

0:45:43.560,0:45:47.770
anything like that in this period of time, so I am recalling back because our Inspector

0:45:47.770,0:45:50.850
General is looking at all that, so I am recalling two years ago.

0:45:50.850,0:45:56.230
The best of my recollection was that Mr. Becker told me that his mother, who had passed away

0:45:56.230,0:46:03.230
years ago, had an account at Madoff. Because the account was closed years before, I did

0:46:05.090,0:46:09.550
not think that the account of a long deceased relative would raise an issue of a conflict

0:46:09.550,0:46:12.730
of interest in Mr. Becker's work.

0:46:12.730,0:46:17.780
I did expect that he would go to the Ethics Counsel, an experienced government official,

0:46:17.780,0:46:23.510
a government lawyer who served under three Chairmen at the SEC, and we use our Ethics

0:46:23.510,0:46:28.500
Counsel all the time for their advice. I expected him to run it by the Ethics Counsel and to

0:46:28.500,0:46:35.100
follow their advice and that is the way it went forward.

0:46:35.100,0:46:41.490
[Mr. Gosar] It seems that if the same situation existed in a publicly trade company that you

0:46:41.490,0:46:47.390
were investigating, would you have such a cavalier approach to that?

0:46:47.390,0:46:53.460
[Ms. Schapiro] It is hard for me to imagine this situation. These are the government ethics

0:46:53.460,0:46:53.710
rules.

0:46:53.520,0:46:56.010
[Mr. Gosar] An ethics rule nonetheless.

0:46:56.010,0:47:01.560
[Ms. Schapiro] It is very hard to answer in the abstract. It would depend on the rule.

0:47:01.560,0:47:07.150

[Mr. Gosar] It just seems there is the Chairman Decl. Pg 28 of 73
different aspect that what is good in the

0:47:07.150,0:47:11.180
private sector and publicly trade situations
is not going well for the government.

0:47:11.180,0:47:17.870
Let us go to my next question. Ms. Chaitman,
do you believe the account valuation method

0:47:17.870,0:47:22.090
that David Becker recommended to the Commission
as its attorney would have befitted his personal

0:47:22.090,0:47:22.970
financial interest?

0:47:22.970,0:47:28.750
[Ms. Chaitman] There is no question that the
constant dollar approach, which apparently

0:47:28.750,0:47:34.800
Mr. Becker invented, would benefit him personally
and reduce his clawback exposure, but the

0:47:34.800,0:47:40.030
more significant problem with the conflict
of interest Mr. Becker had is that it clouded

0:47:40.030,0:47:46.830
his judgment. The law is absolutely clear
that ever investor is entitled to SIPC insurance

0:47:46.830,0:47:53.450
based on his last statement. Mr. Becker had
an obligation, as General Counsel of the SEC,

0:47:53.450,0:47:58.730
to make sure that the SEC complied with the
law and enforced it against SIPC. That is

0:47:58.730,0:48:02.790
the great failure which has caused devastation
to all of my clients.

0:48:02.790,0:48:09.790
[Mr. Gosar] Chairman Schapiro, your agency's
Inspector General compiled a 457-page report

0:48:13.180,0:48:19.990
about the SEC's failure to uncover Madoff's
ponzi scheme. That report devotes two sections

0:48:19.990,0:48:26.110
out of 11 to describing in great detail every
possible connection between SEC employees

0:48:26.110,0:48:27.270
and Madoff.

0:48:27.270,0:48:31.530
Do you think that your General Counsel's
receiving funds from a Madoff account would

0:48:31.530,0:48:35.110
have been appropriate material, the Inspector
General or not?

0:48:35.110,0:48:39.790
[Ms. Schapiro] That would be a much better
question for the Inspector General. I have

0:48:39.790,0:48:44.940
a pretty high level of confidence that he
did quite a thorough report on the agency's

0:48:44.940,0:48:46.450
failures with respect to Madoff.

0:48:46.450,0:48:53.450

[Mr. Gosar] The Inspector General's report mentions on page 382, that two family members of an employee in the Office of Internet Enforcement invested \$1.5 million and \$500,000

0:48:53.630,0:48:59.790
members of an employee in the Office of Internet Enforcement invested \$1.5 million and \$500,000

0:48:59.790,0:49:04.210
respectively with Madoff. The Inspector General found it necessary to make sure that this

0:49:04.210,0:49:07.690
employee had no involvement in any Madoff examination.

0:49:07.690,0:49:12.550
Do you think that the Inspector General would have been interested in a similar situation

0:49:12.550,0:49:17.370
involving your chief lawyer, a senior SEC official who served as General Counsel from

0:49:17.370,0:49:22.350
2000 to 2002 while the SEC was ignoring whistleblower complaints about Madoff?

0:49:22.350,0:49:27.700
[Ms. Schapiro] I can't predict. I can imagine that he might have been and of course he is

0:49:27.700,0:49:32.000
looking at all of these issues now. I expect that he will thoroughly explore that.

0:49:32.000,0:49:39.000
[Mr. Gosar] I understand that you inherited a horrific problem but it always starts with

0:49:39.210,0:49:46.210
top down. Private sector, businesses always look at accountability within the hierarchy.

0:49:46.560,0:49:53.350
It seems like we have a two-edge sword here that we should have demanded better accountability.

0:49:53.350,0:49:53.900
Would you agree?

0:49:53.900,0:49:58.660
[Ms. Schapiro] Congressman, I would agree that from where I sit now and understanding

0:49:58.660,0:50:03.930
all the things that I understand now that I didn't understand in 2009, having arrived

0:50:03.930,0:50:10.930
at the SEC and discovered that I had an agency in absolute ruin in some regards on my hands

0:50:11.350,0:50:18.350
to manage and not knowing obviously all the steps that would be taken by the Trustee or

0:50:18.520,0:50:25.480
the decisions the Commission would make down the road, but knowing those things now, I

0:50:25.480,0:50:27.600
wish that Mr. Becker had recused himself, absolutely.

0:50:27.600,0:50:29.740
[Mr. McHenry] The gentleman's time has expired.

0:50:29.740,0:50:32.710
The gentleman from Illinois, Mr. Quigley, is recognized for five minutes.

0:50:32.710,0:50:35.350 the Chaitman Decl. Pg 30 of 73

*Mr.Quigley. Thank you, Mr. Chairman.

0:50:35.350,0:50:41.620
Madam Chairman, the New York Times reported
on March 5 of this year that the SEC has declined

0:50:41.620,0:50:46.990
to enforce the requirement from Dodd-Frank
that would make rating agencies subject to

0:50:46.990,0:50:52.670
expert liability under the securities law.
This would make rating agencies liable for

0:50:52.670,0:50:57.780
faulty ratings. Could you comment on the timeline
for implementing this measure?

0:50:57.780,0:51:04.000
[Ms. Schapiro] Yes, I would be happy to. The
way the rule works is that if a rating is

0:51:04.000,0:51:09.910
included in a registration statement for securities,
then the rating agency must consent to having

0:51:09.910,0:51:13.040
liability. That is the Dodd-Frank requirement.

0:51:13.040,0:51:18.640
We had preexisting SEC rules that require
for AXA-backed securities registration statements,

0:51:18.640,0:51:24.760
that if a rating was used to sell the securities,
the rating needed to be included in the registration

0:51:24.760,0:51:29.270
statement. Rating agencies have absolutely,
unequivocally -- at least the ones that are

0:51:29.270,0:51:35.700
in existence now -- refused to consent. That
made public offerings of AXA-backed securities

0:51:35.700,0:51:40.470
impossible because they couldn't get the
consent of the rating agencies to include

0:51:40.470,0:51:43.980
the ratings, but they used the ratings to
sell the securities.

0:51:43.980,0:51:50.520
We temporarily set aside our rule, our requirement
that the AXA backed issuers disclose the ratings

0:51:50.520,0:51:54.920
in the registration statements because we
didn't want to be holding up all public

0:51:54.920,0:51:59.540
offerings of AXA-backed securities and pushing
them into the private markets which we felt

0:51:59.540,0:52:04.520
were not as good for investors.

0:52:04.520,0:52:10.450
Right now, our staff is working through reconsideration
of our disclosure requirements. I believe

0:52:10.450,0:52:14.780
they will recommend that we eliminate our
preexisting requirement for including the

0:52:14.780,0:52:18.120
ratings and therefore, the liability provisions
can go forward.

0:52:18.120,0:52:23.180 the Chaitman Decl. Pg 31 of 73

We are also hopeful that some of the newer rating agencies that have indicated an interest

0:52:23.180,0:52:28.290
in becoming registered with us will actually be willing to consent, which is I think how

0:52:28.290,0:52:29.610
Congress hoped the law would work.

0:52:29.610,0:52:32.280
[Mr. Quigley] Can you guess on the timeframe for that?

0:52:32.280,0:52:36.550
[Ms. Schapiro] I can't but I would be more than happy to. I would say over the next couple

0:52:36.550,0:52:39.960
of months, but I would be happy to get you a more definitive answer right away.

0:52:39.960,0:52:45.410
[Mr. Quigley] Thank you. You talked about the agency that you inherited and you talked

0:52:45.410,0:52:52.410
to a certain extent about the reforms necessary and those you have implemented. As to Mr.

0:52:52.480,0:52:58.490
Katz's point, whether or not more assets, and I think you need the assets to do your

0:52:58.490,0:53:05.490
job, help more than the need for in a sense restructuring, reforming and reinventing yourself.

0:53:05.780,0:53:10.960
Are you looking at the agency from that perspective and the broader picture? If you were to start

0:53:10.960,0:53:12.710
over, what would you do and how would you do it?

0:53:12.710,0:53:17.190
[Ms. Schapiro] Absolutely. I actually would do again many of the things we have already

0:53:17.190,0:53:22.140
done. This has been an agency that has been sort of taken upside down and shaken pretty

0:53:22.140,0:53:27.440
hard over the last two years -- new leadership across the board in every major office and

0:53:27.440,0:53:32.150
division, a new Chief Operating Officer, a new Chief Ethics Counsel, our first ever Chief

0:53:32.150,0:53:33.250
Compliance Officer.

0:53:33.250,0:53:38.370
We also restructured our Enforcement Division and put people into specialized groups where

0:53:38.370,0:53:43.300
they could get deep expertise to bring enforcement cases more quickly in particular areas like

0:53:43.300,0:53:46.790
structured products or the Foreign Corrupt Practices Act or insider trading.

0:53:46.790,0:53:52.330
We have also restructured our examination program, both of those, enforcement and examination,

0:53:52.330,0:53:57.980
largely in response to the failures that were
so vividly demonstrated in the Inspector General's

0:53:57.980,0:53:59.350
report on Madoff.

0:53:59.350,0:54:05.610
We have also brought new technology, which
is going to be critical to us. We have too

0:54:05.610,0:54:08.920
many people doing low value work because we
don't have the technology.

0:54:08.920,0:54:10.790
[Mr. Quigley] What do you mean low value work?

0:54:10.790,0:54:14.790
[Ms. Schapiro] For example, when we bring
enforcement cases, we bring in massive amounts

0:54:14.790,0:54:21.530
of electronic data so that we can look at
trading records or we can look at email transmissions

0:54:21.530,0:54:24.490
between parties who might be sharing non-public
information.

0:54:24.490,0:54:31.110
We need to be able to use analytics to find
the important information and all of that,

0:54:31.110,0:54:37.150
not have people plowing through all that information.
When the markets fell so dramatically on May

0:54:37.150,0:54:41.910
6, it took us five months to reconstruct trading
data because we don't have the capacity

0:54:41.910,0:54:42.740
in the SEC.

0:54:42.740,0:54:47.720
[Mr. Quigley] That was the final question
we have limited time. Are you a technological

0:54:47.720,0:54:50.200
match for those that you are regulating?

0:54:50.200,0:54:54.320
[Ms. Schapiro] Not at the moment, we aren't.
We have a phenomenal new Chief Information

0:54:54.320,0:55:00.140
Officer who is making real progress, I think,
but we are a long way from the people that

0:55:00.140,0:55:05.490
we are regulating in terms of our technical
capability, but I think we can get there.

0:55:05.490,0:55:08.480
I think we can put up a good fight anyway.

0:55:08.480,0:55:10.500
[Mr. Quigley] Thank you. I yield back.

0:55:10.500,0:55:16.230
[Mr. McHenry] I thank the gentleman. I now
recognize the Vice Chair of the TARP, Financial

0:55:16.230,0:55:20.020
Services and Bailouts Subcommittee, Mr. Guinta
of New Hampshire, for five minutes.

0:55:20.020,0:55:22.170
[Mr. Guinta] Thank you very much, Mr. Chairman.

0:55:22.170,0:55:27.410

Mr. Katz, thank you and thank all of the witnesses
for being here today. wanted to direct my

0:55:27.410,0:55:28.990

first question to you, sir.

0:55:28.990,0:55:33.750

In your testimony, you talked about the size,
structure and complexity of the U.S. capital

0:55:33.750,0:55:38.700

markets and financial companies that have
grown substantially in the past 30 years.

0:55:38.700,0:55:45.700

I think your position is that you are comparing
the SEC over that same period of time and

0:55:46.470,0:55:51.740

the fact that it has not grown, changed or
modified substantially. I wanted to get a

0:55:51.740,0:55:54.550

little clarification on that first, if you
would.

0:55:54.550,0:56:01.550

[Mr. Katz] Obviously I think everyone would
agree that the capital markets of today are

0:56:02.570,0:56:07.110

exponentially greater, but my point was more
directed to the way the SEC is structured.

0:56:07.110,0:56:11.440

It is not just a question of size; it is a
question of a structure that corresponds to

0:56:11.440,0:56:16.750

the entities you are regulating. The point
I was making is that in the early 1970s when

0:56:16.750,0:56:22.700

basically the current organizational structure
of the SEC was last reformed, you had market

0:56:22.700,0:56:29.540

regulation that focused on stock exchanges
and broke dealers. You had a Division of Investment

0:56:29.540,0:56:35.380

Management Regulation which focused on mutual
funds and investment advisors. They were two

0:56:35.380,0:56:40.820

very separate components of the industry and
there really was very little overlap.

0:56:40.820,0:56:47.820

That no longer exists. Because of consolidation
in the industry and the blending of the roles,

0:56:50.580,0:56:55.460

the fundamental distinction between a stock
broker who is a commission-based seller of

0:56:55.460,0:57:02.460

securities and an investment advisor, who
is an under management advisor on a comprehensive

0:57:04.070,0:57:07.670

portfolio, is a historical artifact. It doesn't
exist.

0:57:07.670,0:57:14.670

Because you have two divisions upon two different
laws, according to a model that no longer

0:57:15.040,0:57:20.760

exists, you get these anomalies. The Chairman Decl. Pg 34 of 73
over fiduciary duty differential was embedded

0:57:20.760,0:57:26.110
in the laws but more importantly, you had
two different divisions who had different

0:57:26.110,0:57:31.750
ways of thinking about it and neither of them
wanted to compromise. They both wanted to

0:57:31.750,0:57:33.570
maintain their piece of it.

0:57:33.570,0:57:38.270
[Mr. Guinta] Does that speak a little bit
to the silo effect that you have been referring

0:57:38.270,0:57:38.760
to?

0:57:38.760,0:57:45.760
[Mr. Katz] Absolutely. I used to joke that
the silos at the SEC were so real that in

0:57:46.270,0:57:51.020
fact, that they had locked doors and that
because all the paper in the agency used to

0:57:51.020,0:57:54.340
have to come through my office, I actually
had a skeleton key that occasionally allowed

0:57:54.340,0:58:01.340
me to unlock each of the silo doors and get
inside. Most people don't. Turf is a real

0:58:02.780,0:58:07.610
issue in any organization, no matter what
the size. It is compounded because remember

0:58:07.610,0:58:11.620
you have different securities laws that were
written at different points of time for different

0:58:11.620,0:58:18.620
segments of the industry. Each division sort
of jealousy guards the law that it controls.

0:58:19.210,0:58:20.150
The market has changed.

0:58:20.150,0:58:26.730
[Mr. Guinta] I listened to what Chairman Schapiro
mentioned in her earlier comments about some

0:58:26.730,0:58:33.360
of the improvements, modifications and changes
that she has made and they sound laudable

0:58:33.360,0:58:40.010
and responsible. That being said, I wonder
what type of congressional action may or may

0:58:40.010,0:58:47.010
not be necessary given the systemic problem
that we have seen within the SEC. I don't

0:58:47.740,0:58:54.510
want to get into the specifics, but the things
we have been talking about here. We have to

0:58:54.510,0:58:59.630
prevent these from happening again. People
in our Nation need to have confidence, not

0:58:59.630,0:59:06.480
just in the SEC, but in the markets as well.
I wonder what you could say about the type

0:59:06.480,0:59:09.610

of intervention you feel Congress the Chairman Decl. Pg 35 of 73
considering?

0:59:09.610,0:59:16.400

[Mr. Katz] That is a very difficult question for me to answer. The reason is I spent virtually

0:59:16.400,0:59:23.240

my entire career at the SEC and I think it is very different for Congress to micromanage

0:59:23.240,0:59:29.050

the internal organization and operations of a government agency. You can set policy, you

0:59:29.050,0:59:34.920

can give direction, but I think it is dangerous when Congress tells the agency this is how

0:59:34.920,0:59:41.920

you get it done. I think the agency really has to take this responsibility on. Chairman

0:59:42.410,0:59:48.080

Schapiro has brought in an entirely new team of senior people. I don't know most of them.

0:59:48.080,0:59:49.800

They seem very competent.

0:59:49.800,0:59:56.800

My hesitation is this. If you rely exclusively on a team of people coming in to effect change,

0:59:56.810,1:00:01.800

when those people walk out the door, the change walks out with them. You need to change the

1:00:01.800,1:00:08.010

structure, you need to change the culture and most importantly, you need the agency

1:00:08.010,1:00:12.270

to define what it is it is trying to do and how do you measure whether it has gotten it

1:00:12.270,1:00:15.540

done. You need that discipline, but that is for the agency to do.

1:00:15.540,1:00:16.640

[Mr. Guinta] Thank you, sir.

1:00:16.640,1:00:21.310

Chairman Schapiro, I only have a few seconds left, but what assurance can you give us that

1:00:21.310,1:00:26.270

new management team is effectively managing and maintaining the necessary changes?

1:00:26.270,1:00:30.210

[Ms. Schapiro] I have to say I think change starts with leadership absolutely and having

1:00:30.210,1:00:34.450

a whole new leadership team makes an enormous difference. They are very committed to working

1:00:34.450,1:00:38.880

together and institutionalizing cooperation and collaboration among all of the divisions.

1:00:38.880,1:00:43.870

For example, we now have the College of Regulators for the largest financial institutions. It

1:00:43.870,1:00:47.420

is no longer just the Trading and Markets Division that looks at them, it is no longer

1:00:47.420,1:00:53.120 the Chaitman Decl. Pg 36 of 73

just the examination group. There is a group of people drawn from all over the agency who

1:00:53.120,1:00:58.000
could have potential interest in the health of that financial institution who meet regularly

1:00:58.000,1:01:03.930
to talk about what is going on in that company, to look at the financials, to meet with the

1:01:03.930,1:01:08.010
staff of that financial institution. So the College of Regulators is just one example.

1:01:08.010,1:01:13.240
We have task forces across the agency. We are merging, in some of our offices and will

1:01:13.240,1:01:17.470
eventually in all of them, our examination programs for investment advisors and broker

1:01:17.470,1:01:19.080
dealers which Mr. Katz mentioned.

1:01:19.080,1:01:25.900
Finally, I should say that we have just commissioned, and I believe it is going to be released today,

1:01:25.900,1:01:30.710
Dodd-Frank required us to hire an independent consultant to do a very in-depth study of

1:01:30.710,1:01:35.830
the SEC's organizational structure. That will be released today. I fully expect that

1:01:35.830,1:01:40.710
there will be some really helpful ideas there for us to further improve how we operate.

1:01:40.710,1:01:43.900
[Mr. McHenry] The gentleman's time has expired. With that, I recognize the Ranking Member,

1:01:43.900,1:01:44.900
Mr. Towns.

1:01:44.900,1:01:48.820
[Mr. Towns] Thank you very much, Mr. Chairman.

1:01:48.820,1:01:55.350
Let me thank all of you for being here. I really appreciate you taking the time to come.

1:01:55.350,1:02:02.350
Chairman Schapiro, the SEC plays a critical role in protecting investors and ensuring

1:02:02.450,1:02:09.450
that our financial markets operate effectively. You have stated that freezing the SEC budget

1:02:11.710,1:02:18.710
impedes the agency's ability to meet its mission, which is to protect investors, to

1:02:19.960,1:02:26.940
maintain fair, orderly and efficient markets, and facilitate capital information. Can you

1:02:26.940,1:02:32.290
put that in concrete terms for us?

1:02:32.290,1:02:39.290
If the SEC does not have the budget to properly oversee capital markets, how would effect

1:02:40.910,1:02:41.910

1:02:41.910,1:02:47.100
[Ms. Schapiro] Yes, sir, I would be happy
to. I think the two things that are most severely

1:02:47.100,1:02:52.940
impacted by a limited budget at the SEC are
capability to hire the new kinds of talent

1:02:52.940,1:02:58.340
and expertise we need, economists, people
who worked in hedge funds on trading desks,

1:02:58.340,1:03:03.080
financial analysts, the new expertise that
will help us keep up with what is going on

1:03:03.080,1:03:03.900
in the marketplace.

1:03:03.900,1:03:10.900
The second is the fact that it will slow down
and really hurt our efforts at reforming our

1:03:10.990,1:03:16.420
technology and bringing it up to speed and
giving us the capacity to do the things we

1:03:16.420,1:03:21.210
need to do in order to keep up with Wall Street.
I know we will never meet their budgets. I

1:03:21.210,1:03:24.470
understand that. I have no expectation and
don't believe the American public should

1:03:24.470,1:03:29.920
pay for us to have a \$3 billion a year technology
budget, but we have to do much better than

1:03:29.920,1:03:31.610
we have been able to do.

1:03:31.610,1:03:36.490
I think those are the two primary things that
are really impacted. It plays out in lots

1:03:36.490,1:03:42.460
of other ways. When we don't have a sufficient
travel budget, examiners can't travel to

1:03:42.460,1:03:48.220
go into that mutual fund where most Americans
hold their investing wealth, and examine the

1:03:48.220,1:03:53.810
mutual fund's books and records. They can't
go to the investment advisor or to the broker

1:03:53.810,1:03:54.670
dealer.

1:03:54.670,1:04:01.260
In little ways, the lack of resources plays
out but the real fundamental ways are bringing

1:04:01.260,1:04:07.140
in those people that we need to really reform
and transform the agency so people know that

1:04:07.140,1:04:12.190
we have at least a fighting chance at staying
on top of what is happening on Wall Street

1:04:12.190,1:04:18.140
so we can also respond when the emergencies
come along as we saw on May 6 when the market

1:04:18.140,1:04:24.190
absolutely fell apart, scared people very

badly in the retail investing public as well. the Chairman Decl. Pg 38 of 73

1:04:24.190,1:04:28.910
the institutional investing public as well.
We need the capability to respond to those

1:04:28.910,1:04:30.090
things very, very quickly.

1:04:30.090,1:04:35.470
[Mr. Towns] What about the flexibility? Do
you have that? For instance, if there is a

1:04:35.470,1:04:42.470
crisis situation and you need a specific type
of person and in order to get that person,

1:04:43.140,1:04:47.660
you might need additional resources to be
able to track who you need to do the job at

1:04:47.660,1:04:50.970
that particular time, do you have that kind
of flexibility?

1:04:50.970,1:04:55.250
[Ms. Schapiro] We have had some flexibility
over the last two years because Congress has

1:04:55.250,1:05:01.400
been generous in our budget, but if we continue
with the CR level or are cut, the answer to

1:05:01.400,1:05:08.400
that is no. May 6 required us to go out and
bring in experts to help us analyze and go

1:05:09.950,1:05:15.120
through all the trading data so we could reconstruct
for the public to see what was happening every

1:05:15.120,1:05:22.120
second in the marketplace when the Dow dropped
500 points in a matter of a few minutes.

1:05:24.090,1:05:30.610
Responding to emergencies is one of the things
I do worry about. That is where we lose flexibility

1:05:30.610,1:05:34.020
if we don't have a sufficient appropriation.

1:05:34.020,1:05:38.110
[Mr. Towns] Thank you, very much. On that
note, I yield back.

1:05:38.110,1:05:42.790
[Mr. McHenry] Thank you. With that, I recognize
Mr. Mack from Florida for five minutes.

1:05:42.790,1:05:47.920
[Mr. Mack] Thank you, Mr. Chairman. I also
want to thank the panel for being here today

1:05:47.920,1:05:54.920
to give us an opportunity to get your insights
and to ask a few questions on a very serious

1:05:55.550,1:05:56.780
topic.

1:05:56.780,1:06:03.780
I would like to start with Chairman Schapiro,
if I might. Do you feel as Chair of the agency

1:06:03.980,1:06:09.480
that ultimately it is your responsibility
to ensure that all of the employees are acting

1:06:09.480,1:06:13.050
in accordance with SEC employee conduct standards?

1:06:13.050,1:06:20.050

[Ms. Schapiro] I have responsibility for the agency in that sense. I cannot tell you that

1:06:20.770,1:06:26.560

with 3,800 employees, I can take individual responsibility for each and ever one to ensure

1:06:26.560,1:06:30.190

that they are following the requirements the way they should be.

1:06:30.190,1:06:37.190

[Mr. Mack] Ultimately, it is your responsibility as the Chair of the SEC?

1:06:37.220,1:06:40.710

[Ms. Schapiro] Ultimately, I am responsible for the agency's conduct.

1:06:40.710,1:06:46.510

[Mr. Mack] If I could direct your attention to slide number four, Chairman Schapiro, are

1:06:46.510,1:06:50.280

you familiar with the rule that is being presented on the screen?

1:06:50.280,1:06:50.530

[Ms. Schapiro] Yes.

1:06:50.470,1:06:57.470

[Mr. Mack] After reading through my material and hearing your testimony, it seems to me

1:06:59.760,1:07:06.460

that you weren't completely knowledgeable of this rule at the time you hired David Becker.

1:07:06.460,1:07:13.460

Please allow me to read it so everyone in the room can understand the entire rule.

1:07:13.710,1:07:18.700

"The Securities and Exchange Commission has been entrusted by Congress with the protection

1:07:18.700,1:07:25.700

of the public interest in a highly significant area of our national economy. In view of the

1:07:26.800,1:07:33.160

effect which Commission action frequently has on the general public, it is important

1:07:33.160,1:07:39.480

that members, employees and special government employees maintain unusually high standards

1:07:39.480,1:07:46.480

of honesty, integrity, impartiality and conduct. They must be constantly aware of the need

1:07:47.520,1:07:54.520

to avoid situations which might result either in actual or apparent misconduct or conflicts

1:07:54.990,1:08:01.990

of interest and to conduct themselves in the official relationships in a manner which commands

1:08:02.250,1:08:06.850

the respect and confidence of their fellow citizens."

1:08:06.850,1:08:11.790

Chairman Schapiro, were you familiar with this rule at the time that you received David

1:08:11.790,1:08:13.270

Becker as your General Counsel? the Chaitman Decl. Pg 40 of 73

1:08:13.270,1:08:18.250
[Ms. Schapiro] I can't tell you whether
I had read it. I have been in and out of government

1:08:18.250,1:08:20.929
most of my career, so I am generally aware
of the ethics rules.

1:08:20.929,1:08:27.929
[Mr. Mack] I only have a little bit of time.
A moment ago, you said you were familiar with

1:08:28.909,1:08:29.210
the rule.

1:08:29.210,1:08:36.210
[Ms. Schapiro] I am but you just asked me
was I aware of it at the time that David Becker

1:08:37.049,1:08:41.460
arrived at the Commission. I am telling you
I can't recall whether I had reread the

1:08:41.460,1:08:43.730
rule recently at that point or not.

1:08:43.730,1:08:47.799
[Mr. Mack] Throughout your time in the 1980s
and 1990s, you were familiar with this rule?

1:08:47.799,1:08:52.690
[Ms. Schapiro] Yes, I am generally aware of
the ethics rules and that it is each employee's

1:08:52.690,1:08:52.940
obligation.

1:08:52.690,1:08:56.420
[Mr. Mack] Regarding David Becker's work
with the Madoff case, do you believe that

1:08:56.420,1:09:03.420
Mr. Becker was sufficiently aware of the need
to avoid actual or apparent conflicts of interest?

1:09:04.509,1:09:11.509
[Ms. Schapiro] I want to be very careful.
I believe he did what he thought was appropriate

1:09:13.170,1:09:17.499
and what was required of him, going to the
Ethics Counsel and seeking advice, getting

1:09:17.499,1:09:22.699
that advice and following it. Do I wish now
that he had been more sensitive to the potential

1:09:22.699,1:09:28.679
for this issue to raise an appearance of a
conflict? Yes, I wish that had happened.

1:09:28.679,1:09:32.609
[Mr. Mack] A few more questions. Do you think
that you were sufficiently aware of the need

1:09:32.609,1:09:35.249
to avoid actual or apparent conflicts of interest?

1:09:35.249,1:09:38.839
[Ms. Schapiro] On my part, yes. I believe
I am.

1:09:38.839,1:09:45.259
[Mr. Mack] You said now a couple times, I
think, that you wished Mr. Becker would have

1:09:45.259,1:09:52.259
recused himself. Is that because of the fallout
or do you really believe he should have recused

1:09:52.650,1:09:52.900
himself?

1:09:52.650,1:09:59.650
[Ms. Schapiro] I believe, as I said, at the
time from my perspective, a close account

1:10:01.320,1:10:06.739
from a long since deceased relative didn't
appear to me to raise a conflict of interest,

1:10:06.739,1:10:12.130
but I believe now, knowing what we know now,
not because of the fallout, though that is

1:10:12.130,1:10:17.199
very real, but because if we could connect
the dots and look ahead and see what all the

1:10:17.199,1:10:21.530
steps would have been, yes, it would have
been appropriate to have recused.

1:10:21.530,1:10:28.530
[Mr. Mack] Let me say this. Also earlier,
you kind of referred to the budget as kind

1:10:30.579,1:10:37.539
of the reason why some of these mistakes happened.
How much does it cost to follow that rule?

1:10:37.539,1:10:42.309
[Ms. Schapiro] That is a personal initiative.
It doesn't really cost anything.

1:10:42.309,1:10:48.820
[Mr. Mack] So the argument about the budget
as it pertains to this rule, doesn't hold

1:10:48.820,1:10:55.769
water? The argument about the budget in your
opening statement that you talked about really

1:10:55.769,1:10:57.670
doesn't pertain to this rule?

1:10:57.670,1:11:02.329
[Ms. Schapiro] No, and I didn't mean to
suggest in any way that it did.

1:11:02.329,1:11:02.860
[Mr. Mack] Thank you.

1:11:02.860,1:11:07.389
[Mr. McHenry] The gentleman's time has expired.
With that, I recognize the Ranking Member

1:11:07.389,1:11:07.800
of the full committee.

1:11:07.800,1:11:12.570
[Mr. Cummings] I don't want that to be left
hanging. I never heard you, and I heard all

1:11:12.570,1:11:17.789
of your testimony and I have read your testimony,
Ms. Schapiro, you never made that allegation.

1:11:17.789,1:11:23.119
I want to make that clear. I haven't heard
it. I think it is a very unfair statement.

1:11:23.119,1:11:30.119
Let me go on. Chairman Schapiro, I must tell
you that when I was talking to my staff -- as

1:11:33.699,1:11:38.960
a matter of fact, when we were emailing back
and forth at 4:00 a.m. this morning about

1:11:38.960,1:11:45.960 the Chaitman Decl. Pg 42 of 73

this case, because it does trouble me to a degree with regard to the appearance of a

1:11:48.219,1:11:51.260
conflict of interest.

1:11:51.260,1:11:58.260
I think when we hear what Ms. Chaitman had to say, that shows you why, and I am sure

1:12:03.749,1:12:10.749
you see it, we have to make sure that we don't even have the appearance because what happens

1:12:11.610,1:12:18.610
is that every decision made by Mr. Becker then becomes suspect. It is my favorite author,

1:12:19.909,1:12:26.909
Covey who in the book, "The Speed of Trust," says that "Once trust is lost, everything

1:12:27.760,1:12:34.760
moves more slowly." So I cannot begin to tell you how pleased I was when you walked

1:12:35.860,1:12:42.860
in here today and said we will go beyond what may be required. That is so very, very important.

1:12:44.499,1:12:50.400
In my office, I have five people that whenever there is an ethics question, they all have

1:12:50.400,1:12:56.300
to agree and if one vetoes, it is out the door. Why? Because the public is looking over

1:12:56.300,1:13:01.010
our shoulders, we want to do the right thing and we want to make sure that it is right.

1:13:01.010,1:13:08.010
This has been a major wake up call, hasn't it. Here in this committee, it is so easy

1:13:13.329,1:13:19.489
for us to get into a gotcha mode, but I must tell you, after I read about what you had

1:13:19.489,1:13:24.989
done at the SEC since you have been there, and having sat on this committee and watched

1:13:24.989,1:13:31.989
Mr. Cox and what he did with this organization and how it went down under him, to see you

1:13:32.800,1:13:39.800
come and try to sweep up the mess, I must commend you.

1:13:40.070,1:13:46.619
The sad part about it is that one of these little incidents basically can almost destroy

1:13:46.619,1:13:49.630
that trust. Do you understand what I am saying?

1:13:49.630,1:13:56.630
So I want you to commit to this committee, if you will. Tell me, if these incidents come

1:13:59.920,1:14:06.920
up again, tell us the difference in how you might approach it. I understand what you did.

1:14:07.480,1:14:14.179
A fellow comes to you, he tells you, years ago, I got an inheritance and he wants to

1:14:14.179,1:14:19.340

know about a conflict. You listened to it
for a while. You have 3,800 employees to deal

1:14:19.340,1:14:24.929

with, you hear him and then you say, you know
what, the expert on this is the ethics guy.

1:14:24.929,1:14:29.409

Make sure you check with him and he got an
opinion.

1:14:29.409,1:14:33.949

How would you deal with this differently now,
looking backwards?

1:14:33.949,1:14:37.429

[Ms. Schapiro] We have a new Ethics Counsel,
first of all, who is doing sort of a top to

1:14:37.429,1:14:42.840

bottom review of our program, but I think
I need to work with all of our employees and

1:14:42.840,1:14:48.050

communicate with all of our employees about
a heightened sensitivity to issues like this.

1:14:48.050,1:14:54.860

I have worked so hard in the last two years
to try to put this agency back on the right

1:14:54.860,1:14:59.800

path and to earn the trust of the public.
You are right, a small thing like this, not

1:14:59.800,1:15:04.860

so small thing like this, can really set us
back. It is not fair to 3,800 hardworking

1:15:04.860,1:15:05.269

employees.

1:15:05.269,1:15:11.420

It is just like when somebody mentioned in
their opening statement that employees had

1:15:11.420,1:15:18.420

viewed pornography at the SEC. It infuriates
me because most people there are working their

1:15:18.999,1:15:23.710

hearts out day and night to try to do the
right thing. It hurts the reputation of every

1:15:23.710,1:15:24.809

single one of us.

1:15:24.809,1:15:29.679

I have to work with our employees to make
sure that we increase their sensitivity to

1:15:29.679,1:15:36.110

issues like this. I think with our new Ethics
Counsel and their review of the program and

1:15:36.110,1:15:40.880

how it might be strengthened, we will get
some good advice. I think the Inspector General

1:15:40.880,1:15:44.139

is likely to have some recommendations that
will be very helpful too.

1:15:44.139,1:15:51.139

[Mr. Cummings] I read in your testimony where
you talked about technology and trying to

1:15:51.260,1:15:58.260

keep up with these ever changing transactions

and how complicated they have become the Chairman Decl. Pg 44 of 73

1:15:59.480,1:16:04.320
to make sure you have all the resources you
need to address this because so many of our

1:16:04.320,1:16:11.320
constituents on both sides lost a lot of money.
Like Mr. Crimmins said, they need confidence

1:16:11.809,1:16:14.789
to reenter this system of stocks.

1:16:14.789,1:16:16.630
[Ms. Schapiro] I agree.

1:16:16.630,1:16:18.280
[Mr. Cummings] Thank you.

1:16:18.280,1:16:23.860
[Mr. McHenry] I thank the Ranking Member.
With that, we yield for five minutes to Mr.

1:16:23.860,1:16:24.619
Ross of Florida.

1:16:24.619,1:16:26.510
[Mr. Ross] Thank you, Mr. Chairman.

1:16:26.510,1:16:30.360
As a kid, I always wanted to be a lawyer and
fortunately I found a law school that would

1:16:30.360,1:16:35.519
take me. I went to law school and I always
had a deep seated respect for the sanctity

1:16:35.519,1:16:42.159
of the law, so much so that I was gratified
that the American Bar Association and my state

1:16:42.159,1:16:46.489
bar association required not only a course
but an examination on the Code of Professional

1:16:46.489,1:16:47.300
Responsibility.

1:16:47.300,1:16:52.409
Ms. Schapiro, I understand that you too are
a lawyer and that even though you inherited

1:16:52.409,1:16:59.409
quite a mess at a time of great disarray at
the SEC, my question is as a lawyer, when

1:17:02.900,1:17:08.670
Mr. Becker came to you, did you not think
that a further investigation should be made?

1:17:08.670,1:17:15.360
As a lawyer, we do conflicts checks, we make
sure of that and it just seems to me that

1:17:15.360,1:17:22.360
if further inquiries had been made at that
time, this might have been avoided.

1:17:22.389,1:17:27.749
[Ms. Schapiro] I don't disagree with you
that if further inquiries had been made, this

1:17:27.749,1:17:33.420
might have been avoided. I can only say what
I said at the beginning, that when he raised

1:17:33.420,1:17:38.929
it with me, that he had a closed account,
I didn't know if it had been a net winner

1:17:38.929,1:17:43.969

account, a net loser account or anything like that, the Chairman Decl. Pg 45 of 73
from a deceased relative, it didn't raise

1:17:43.969,1:17:45.749
for me a conflict of interest question.

1:17:45.749,1:17:52.749
[Mr. Ross] The fact that he asked for a waiver
from his subordinate is indicative of a problem,

1:17:55.320,1:17:58.420
an inherent internal problem there from an
ethical standpoint.

1:17:58.420,1:18:04.800
[Ms. Schapiro] I don't know that he asked
for a waiver and I again, I have no access

1:18:04.800,1:18:11.699
to any contemporaneous documents of any sort.
He asked whether or not he had a conflict

1:18:11.699,1:18:14.469
and was advised that he did not have a conflict.

1:18:14.469,1:18:18.309
[Mr. Ross] Did you know who was advising him
that there was no conflict?

1:18:18.309,1:18:22.400
[Ms. Schapiro] It was the Ethics Counsel of
the SEC at that time who is no longer the

1:18:22.400,1:18:23.219
Ethics Counsel.

1:18:23.219,1:18:26.369
[Mr. Ross] As General Counsel, that would
be under him, would it not?

1:18:26.369,1:18:28.449
[Ms. Schapiro] I believe that is the case
in most agencies.

1:18:28.449,1:18:30.889
[Mr. Ross] Do you feel this would be avoided
again in the future?

1:18:30.889,1:18:37.889
[Ms. Schapiro] I would love to say absolutely
without a doubt, but it would be my very strong

1:18:39.349,1:18:45.489
hope that with a very strong new Ethics Counsel
that we hired from the Treasury Department

1:18:45.489,1:18:51.550
with long government experience, with a revamping
of our programs and with some additional education

1:18:51.550,1:18:55.619
and training for our people, I would hope
and expect that we could avoid this.

1:18:55.619,1:18:58.809
[Mr. Ross] I think the American public needs
that assurance that credibility is going to

1:18:58.809,1:18:59.639
be there.

1:18:59.639,1:19:05.360
Mr. Risinger, with regard to human resources,
are your employees all part of the general

1:19:05.360,1:19:06.789
schedule in terms of compensation?

1:19:06.789,1:19:11.179
[Mr. Risinger] Congressman, actually we have
a separate pay schedule that we received from

1:19:11.179,1:19:13.889

legislation of Congress back in 2001, 2002.

1:19:13.889,1:19:19.010

[Mr. Ross] Were you subject to the pay freeze that the President issued?

1:19:19.010,1:19:19.630

[Mr. Risinger] Yes, we are.

1:19:19.630,1:19:25.230

[Mr. Ross] That just really affected the cost of living increases, didn't it?

1:19:25.230,1:19:27.179

[Mr. Risinger] It does affect the cost of living increases.

1:19:27.179,1:19:30.219

[Mr. Ross] What about within pay grade or step increases? Did it affect that?

1:19:30.219,1:19:36.829

[Mr. Risinger] We have a merit pay process that is the equivalent of step increases for

1:19:36.829,1:19:40.119

the rest of the government, so that is technically affected by the pay freeze.

1:19:40.119,1:19:45.559

[Mr. Ross] In your disciplinary procedures, let me ask you this. What is the probationary

1:19:45.559,1:19:46.309

period for any employee?

1:19:46.309,1:19:47.889

[Mr. Risinger] It is generally a year.

1:19:47.889,1:19:54.659

[Mr. Ross] One year. After one year, if there is a disciplinary situation, is a presumption

1:19:54.659,1:20:01.429

in favor of the employee if they have been found in violation or alleged violation of

1:20:01.429,1:20:03.159

any personnel policies?

1:20:03.159,1:20:08.249

[Mr. Risinger] The Federal laws that we have to follow in terms of disciplining employees

1:20:08.249,1:20:11.729

set out a number of standards that we have to go through. There are actually 12 factors

1:20:11.729,1:20:16.690

that you have to look at when you are issuing discipline and one of them is a factor that

1:20:16.690,1:20:21.090

says, is this the level of discipline that is necessary to stop the behavior and not

1:20:21.090,1:20:26.710

more than that. So there is a presumption that you are taking a preventive or corrective

1:20:26.710,1:20:29.019

step, not necessarily a punitive step.

1:20:29.019,1:20:31.329

[Mr. Ross] These would have been the same procedures employed in those involved in the

1:20:31.329,1:20:32.210

viewing of pornography, correct?

1:20:32.210,1:20:33.030

[Mr. Risinger] That is correct.

1:20:33.030,1:20:36.900

[Mr. Ross] Only one person was fired as a result of that?

1:20:36.900,1:20:43.900

[Mr. Risinger] Of the cases we have had since 2005, 50 percent or 51 percent have either

1:20:45.130,1:20:51.309

resigned, retired or have proposed removals in place. We have had a number of suspensions

1:20:51.309,1:20:52.300

and reprimands as well.

1:20:52.300,1:20:56.070

[Mr. Ross] What is the attrition rate in your agency?

1:20:56.070,1:21:01.800

[Mr. Risinger] In the agency, in normal years, it is 7 to 8 percent. In the last couple of

1:21:01.800,1:21:06.309

years because of the economy, it has been in the 3-1/2 to 4 percent range.

1:21:06.309,1:21:09.030

[Mr. Ross] How does that compare with Federal agencies overall?

1:21:09.030,1:21:16.030

[Mr. Risinger] If we are talking just attrition in general, I think that is pretty equivalent

1:21:16.820,1:21:17.749

with other agencies.

1:21:17.749,1:21:24.749

[Mr. Ross] Last question. Ms. Chaitman, with regard to the Madoff situation specifically,

1:21:25.039,1:21:32.039

I saw where you put them on notice, what was going on. What action do you think would have

1:21:36.979,1:21:39.969

requested be done in order to avoid this conflict?

1:21:39.969,1:21:45.999

[Ms. Chaitman] Under the statute, Congress mandated that the SEC go into court and enforce

1:21:45.999,1:21:51.979

the law against SIPC. That is precisely what I asked Ms. Schapiro to do in my April 2,

1:21:51.979,1:21:58.469

2009 letter. In fact, when Ms. Schapiro testified on July 14 before the Subcommittee on Capital

1:21:58.469,1:22:04.460

Markets that she was going to do everything in her power to provide the maximum SIPC coverage

1:22:04.460,1:22:10.039

for all investors, I assumed that she was, in fact, going to follow my request. Now I

1:22:10.039,1:22:17.039

have learned that in January 2009, the SEC had already agreed with denial of SIPC insurance

1:22:17.999,1:22:19.400

to more than half of the victims.

1:22:19.400,1:22:22.190

[Mr. Ross] Thank you. I yield back the Chaitman Decl. Pg 48 of 73

1:22:22.190,1:22:24.909

[Mr. McHenry] Thank you. Mr. Yarmoth of Kentucky for five minutes.

1:22:24.909,1:22:26.619

[Mr. Yarmoth] Thank you, Mr. Chairman.

1:22:26.619,1:22:28.719

Thanks to all the witnesses for your testimony.

1:22:28.719,1:22:35.340

Over the last couple weeks I have been plowing my way through the Financial Crisis Inquiry

1:22:35.340,1:22:41.239

Report which is anything but bedtime reading. It will not put you to sleep, I guarantee

1:22:41.239,1:22:43.679

you that -- as a matter of fact, quite the contrary.

1:22:43.679,1:22:50.090

I am sure, Chairman Schapiro, that you are aware of what the report concluded, particularly

1:22:50.090,1:22:57.090

with regard to the SEC. I was interested in an assessment of where you think you still

1:22:59.079,1:23:04.360

need to go to make sure that the failings in the system as it concerned your agency

1:23:04.360,1:23:06.130

won't recur?

1:23:06.130,1:23:12.570

[Ms. Schapiro] As I have not looked at the report recently, it obviously focused a lot

1:23:12.570,1:23:18.900

on the failures of the SEC's Consolidated Supervision Program for the five largest investment

1:23:18.900,1:23:23.179

banks, all of which during the financial crisis essentially disappeared or converted to bank

1:23:23.179,1:23:27.780

holding companies under the regulation of the Fed. I think there are a lot of lessons.

1:23:27.780,1:23:34.469

I testified before the FCIC about the failures of the agency with respect to that program.

1:23:34.469,1:23:38.749

There are a couple of things. One is that it was a voluntary program, a voluntary regulatory

1:23:38.749,1:23:45.749

program which, in my view, doesn't work very well. We had insufficient resources devoted

1:23:48.659,1:23:53.679

to the regulation of the five largest investment banks. We didn't have people with the right

1:23:53.679,1:23:59.469

kind of expertise and I think in some ways perhaps the most important thing is it required

1:23:59.469,1:24:03.079

a very different kind of supervision than the SEC has traditionally done. It required

1:24:03.079,1:24:09.579

prudential supervision as opposed to the SEC's

going on-site, doing an examination the Chairman Decl. Pg 49 of 73

1:24:09.579,1:24:11.530
and then perhaps bringing an enforcement case.

1:24:11.530,1:24:16.550
We didn't have the right mindset within
the agency I think for that kind of constant

1:24:16.550,1:24:22.949
prudential oversight approach that was really
necessary. There was a lack of management

1:24:22.949,1:24:29.949
focus, I think, with respect to the program.
There was a willingness to believe what our

1:24:30.059,1:24:34.030
people were being told by some of the leaders
in some of those financial institutions that

1:24:34.030,1:24:41.030
failed, a lack of skepticism which I think
really hurt us as well. That program was discontinued

1:24:41.559,1:24:44.099
by my predecessor, Chairman Cox.

1:24:44.099,1:24:51.099
[Mr. Yarmoth] With regard to the present situation,
because most people who observe the situation

1:24:53.409,1:25:00.409
now, agree I think that the situation in terms
of too big to fail, the largest investment

1:25:01.309,1:25:08.309
banks have, in fact, gotten larger and that
the wild west atmosphere in terms of risk

1:25:09.519,1:25:16.489
taking and so forth may not have been curtailed
at all. Is this a concern that you share?

1:25:16.489,1:25:22.199
Anyone else on the panel is welcome to respond
as well.

1:25:22.199,1:25:28.619
Looking at the Wall Street profit picture
and so forth, it looks like there hasn't

1:25:28.619,1:25:31.059
been a whole lot of change in behavior.

1:25:31.059,1:25:35.300
[Ms. Schapiro] I do think I can speak perhaps
most particularly to the over-the-counter

1:25:35.300,1:25:39.229
derivatives market where we have a very direct
responsibility, although much progress is

1:25:39.229,1:25:43.380
being made internationally with respect to
accounting standards and other prudential

1:25:43.380,1:25:43.960
measures.

1:25:43.960,1:25:50.960
Getting the over-the-counter derivatives market
into a transparent marketplace so that regulators

1:25:51.420,1:25:55.869
can understand the build up and concentration
of risk in financial institutions I think

1:25:55.869,1:26:00.679
is going to be a very, very important piece
of this. We are working through those rules

1:26:00.679,1:26:05.559

as is the Commodities Futures Trading Commission.
About half of them or so have been proposed

1:26:05.559,1:26:10.309

and I would expect while we are going to miss
for some of them the July 21 deadline, we

1:26:10.309,1:26:15.409

will get them over the finish line over the
course of the rest of this year. Then there

1:26:15.409,1:26:21.239

will be implementation and phasing periods
to go through. I think that will make a difference.

1:26:21.239,1:26:26.800

I think the work the FDIC is doing with the
Fed and others on living wills and plans for

1:26:26.800,1:26:31.479

financial institutions to wind down their
business appropriately will also make a very

1:26:31.479,1:26:33.979

big difference and then, of course, the capital
requirements.

1:26:33.979,1:26:40.979

[Mr. Yarmoth] A final question on that subject.
We talked about the problem potentially with

1:26:44.710,1:26:51.710

resources and the dangers that would ensue
if your budget was cut. Are you confident

1:26:53.110,1:26:57.690

that the legislative action that was taken,
Dodd-Frank, is sufficient or that there are

1:26:57.690,1:27:03.099

things that we yet need to do to make sure
that we don't have a situation recur as

1:27:03.099,1:27:03.940

it did two years ago?

1:27:03.940,1:27:09.869

[Ms. Schapiro] I think it makes large strides
towards filling the gaps that existed in the

1:27:09.869,1:27:15.519

regulatory regime. I will say that one of
my concerns about the budget is that we don't

1:27:15.519,1:27:21.300

have the capacity to operationalize the rules
that we are putting into place -- getting

1:27:21.300,1:27:26.690

swap markets participants registered and the
swap data analyzed and market surveillance

1:27:26.690,1:27:32.739

taken care of. Those are things that we will
have to put off, but I think it is incumbent

1:27:32.739,1:27:37.860

upon all of us as regulators who see these
markets close up to continue to tell Congress

1:27:37.860,1:27:42.719

where we think the issues are, where perhaps
Dodd-Frank wasn't the right approach and

1:27:42.719,1:27:44.070

where we think there are still gaps.

1:27:44.070,1:27:45.440

[Mr. Yarmoth] Thank you very much.

1:27:45.440,1:27:50.130

[Mr. McHenry] I thank the gentleman. With that, I yield five minutes to the Chairman

1:27:50.130,1:27:51.550

of the Full Committee, Mr. Issa.

1:27:51.550,1:27:55.400

[Mr. Issa] Thank you, Mr. Chairman.

1:27:55.400,1:28:00.829

Madam Chair, I just went over to the Business Roundtable and back, so I had the opportunity

1:28:00.829,1:28:07.829

to see about one-third of corporate America's profits in that room, almost all public companies,

1:28:09.110,1:28:16.110

probably all public companies except one, all regulated by the SEC. I was there talking

1:28:16.190,1:28:18.389

about impediments to job creation.

1:28:18.389,1:28:24.510

I am going to give you a little relief from the question de jour for a moment and ask,

1:28:24.510,1:28:30.949

Dodd-Frank is not perfect and it was not what you might call a low cost, low budget way

1:28:30.949,1:28:37.949

to get better performance with less cost. You have asked for 28 percent budget increase.

1:28:38.650,1:28:45.550

In fact, if you had only the budget increase necessary to do the work you were not doing

1:28:45.550,1:28:50.280

as well as you wanted to without all the new losses, what would that budget increase be

1:28:50.280,1:28:54.119

in your estimation? In other words, what would it cost to do it right without piling on new

1:28:54.119,1:28:59.320

regulations when there is no question there have been problems properly enforcing your

1:28:59.320,1:29:00.409

existing portfolio?

1:29:00.409,1:29:05.889

[Ms. Schapiro] Mr. Chairman, I would have to actually do the math but maybe this helps.

1:29:05.889,1:29:12.889

When we did our 2012 request, we viewed 40 percent of the positions and it was a total

1:29:13.820,1:29:19.929

of 780 positions or 584 full-time equivalents. We viewed 40 percent of those as going to

1:29:19.929,1:29:26.929

our ongoing programs -- that is 312 positions -- and 60 percent going to Dodd-Frank in limitations,

1:29:28.119,1:29:34.190

so hedge funds, oversight, over the counter derivatives, municipal advisors, whistleblower

1:29:34.190,1:29:37.619

programs, clearing agencies and so forth.

1:29:37.619,1:29:42.289

[Mr. Issa] To follow up on that quite the Chairman Decl. Pg 52 of 73
transparency elements that were asked for

1:29:42.289,1:29:49.289
and agreed on by SEC and other agencies never
got into Dodd-Frank, so you don't have a

1:29:49.349,1:29:55.929
common mandate for reporting for transparency
that had been worked out in the conference

1:29:55.929,1:29:59.099
and then didn't happen.

1:29:59.099,1:30:03.800
From this committee's standpoint we are
interested, and you can answer for the record

1:30:03.800,1:30:08.349
if you are not completely ready today, how
much savings could you get if, in fact, there

1:30:08.349,1:30:14.199
was transparent interoperability both inward
and whenever possible, out to the public for

1:30:14.199,1:30:14.780
oversight?

1:30:14.780,1:30:18.559
[Ms. Schapiro] That is a great question and
I would like to answer it for the record because

1:30:18.559,1:30:24.300
I do think it is important, particularly when
you have a market like the over-the-counter

1:30:24.300,1:30:29.969
derivatives market with two regulators in
the same space, that we try to be as consistent

1:30:29.969,1:30:34.320
as we possibly can and leverage each other
as effectively as we can. If I can come back

1:30:34.320,1:30:35.400
to you on that, I would like to.

1:30:35.400,1:30:39.119
[Mr. Issa] I appreciate that and I want to
give you an opportunity to be thoughtful because

1:30:39.119,1:30:43.150
that is a major initiative of this committee
on a bipartisan basis in the last Congress

1:30:43.150,1:30:46.489
that didn't happen and we would like to
renew it but would certainly take your input.

1:30:46.489,1:30:53.489
In the remaining two minutes, I do want to
ask, Mr. Becker's conduct in retrospect

1:30:56.059,1:31:02.889
was not a good idea. It certainly has not
led to confidence in the independence, transparency

1:31:02.889,1:31:09.400
and non-biased behavior of the SEC when we
look through the tail light.

1:31:09.400,1:31:16.329
How can we know that the changes you are asking
to be reviewed are going to clearly eliminate

1:31:16.329,1:31:19.590
anything like this in the future? Where do
we get the confidence in that?

1:31:19.590,1:31:26.590

[Ms. Schapiro] Mr. Chairman, I think the Chairman Decl. Pg 53 of 73
a fair question. You and I have had many conversations

1:31:27.300,1:31:33.170
and I try to be very transparent and up front.
We will obviously be public about what our

1:31:33.170,1:31:38.460
Inspector General finds and what recommendations
he makes, what our new Ethics Counsel finds

1:31:38.460,1:31:45.159
as she reviews our program and recommendations
she makes. We will be happy to come back and

1:31:45.159,1:31:49.699
talk to Congress about those findings and
those recommendations and see if we can develop

1:31:49.699,1:31:55.039
some metrics that would actually help us figure
out whether we are getting it right.

1:31:55.039,1:31:59.499
[Mr. Issa] Your Ethics Counsel served under
the General Counsel, a career position but

1:31:59.499,1:32:01.380
under the General Counsel, correct?

1:32:01.380,1:32:02.229
[Ms. Schapiro] Yes.

1:32:02.229,1:32:06.690
[Mr. Issa] Would you consider moving that
to be independent direct report so that there

1:32:06.690,1:32:13.460
would only be one person, a political appointee
like yourself, that would be between the public

1:32:13.460,1:32:17.940
and ethics questions rather than having a
General Counsel who has a number of jobs?

1:32:17.940,1:32:22.199
You don't have to answer that today but
I would like you to consider that. In so many

1:32:22.199,1:32:29.199
different HR situations in the private sector,
there is a clear independence of HR which

1:32:29.760,1:32:33.940
is a lot of the questions. A question of conflict
was more than a legal questions, particularly

1:32:33.940,1:32:40.789
when it included somebody who was the boss
of the person they went to for this 25 minute

1:32:40.789,1:32:44.940
session and clearance, so give that some thought.
I won't ask for an answer today.

1:32:44.940,1:32:46.900
[Ms. Schapiro] I will do that.

1:32:46.900,1:32:52.679
[Mr. Issa] Finally, as the time runs out,
we on the committee want to work to try to

1:32:52.679,1:32:57.010
be helpful. We realize we only have a portion
of the portfolio that you see; you see much

1:32:57.010,1:33:04.010
more of the regulatory and financial oversight
of another committee, but the question I have

1:33:04.260,1:33:11.260

for you is, in our conduct of this hearing and the Chairman Decl. Pg 54 of 73
as we look at Mr. Becker's total portfolio

1:33:11.369,1:33:17.760
of money, other things he may have done and
how this might have affected or not affected

1:33:17.760,1:33:21.340
the Madoff Trust, will you promise your cooperation
to this committee today?

1:33:21.340,1:33:26.349
[Ms. Schapiro] I will promise my cooperation
to the fullest extent I can. I don't know

1:33:26.349,1:33:28.489
that I can compel him in any way to do anything.

1:33:28.489,1:33:33.039
[Mr. Issa] He has already come in voluntarily.
We have the ability to compel him but it is

1:33:33.039,1:33:39.159
really making sure that we can have a quick
and transparent. Your IG would normally be

1:33:39.159,1:33:45.059
willing to share any information that was
not directly related to a criminal referral

1:33:45.059,1:33:49.679
and so on. Anything you can do to pledge to
help us will allow us to move from where we

1:33:49.679,1:33:53.210
are as quickly as possible onto something
else. That is why I ask today.

1:33:53.210,1:33:54.190
[Ms. Schapiro] Yes, of course I will help.

1:33:54.190,1:33:56.929
[Mr. Issa] Thank you. I thank you all for
your indulgence and I yield back.

1:33:56.929,1:33:58.159
[Mr. McHenry] Thank you.

1:33:58.159,1:34:00.190
Mr. Connolly of Virginia for five minutes.

1:34:00.190,1:34:03.249
[Mr. Connolly] Thank you, Mr. Chairman.

1:34:03.249,1:34:07.579
Chairman Schapiro, aren't you the Chairman
who appointed the Inspector General who, in

1:34:07.579,1:34:09.659
fact, is charged with investigating Mr. Becker?

1:34:09.659,1:34:13.019
[Ms. Schapiro] No, sir. He was appointed by
my predecessor.

1:34:13.019,1:34:15.999
[Mr. Connolly] By your predecessor. That investigation
continues?

1:34:15.999,1:34:20.249
[Ms. Schapiro] Yes. I requested the investigation.

1:34:20.249,1:34:22.880
[Mr. Connolly] You requested the investigation?

1:34:22.880,1:34:24.159
[Ms. Schapiro] Yes.

1:34:24.159,1:34:31.159
[Mr. Connolly] We just heard a line of questioning
asking you to look at a budget without additional

1:34:34.670,1:34:41.670
regulation that was burdensome and so forth.
The Dodd-Frank legislation added some regulation

1:34:45.559,1:34:49.389
in areas that heretofore had not been regulated
at all, is that correct, Chairman Schapiro?

1:34:49.389,1:34:50.940
[Ms. Schapiro] Yes, that is absolutely correct.

1:34:50.940,1:34:55.909
[Mr. Connolly] For examples, take derivatives.
How big are derivatives? What is the value of

1:34:55.909,1:34:56.829
the derivatives market?

1:34:56.829,1:34:59.119
[Ms. Schapiro] The last number I saw was \$600
trillion, I believe.

1:34:59.119,1:35:01.400
[Mr. Connolly] I am sorry, did you say trillion?

1:35:01.400,1:35:02.110
[Ms. Schapiro] Yes, sir.

1:35:02.110,1:35:06.449
[Mr. Connolly] It is entirely unregulated
until Dodd-Frank passed, is that correct?

1:35:06.449,1:35:08.449
[Ms. Schapiro] Yes, it is largely unregulated.

1:35:08.449,1:35:13.579
[Mr. Connolly] Whatever could go wrong with
an entirely unregulated \$600 trillion market?

1:35:13.579,1:35:19.229
[Ms. Schapiro] We saw some things that went
wrong and presumably that is what motivated

1:35:19.229,1:35:20.079
the Dodd-Frank Act.

1:35:20.079,1:35:24.320
[Mr. Connolly] So maybe that is one of those
burdensome additional pieces of regulation

1:35:24.320,1:35:31.320
we are just going to have to put up with.
That burdensome additional regulation requires

1:35:32.959,1:35:39.959
SEC to staff up and to acquire the requisite
expertise to enforce the regulation you are

1:35:40.119,1:35:41.630
now charged with, is that correct?

1:35:41.630,1:35:44.749
[Ms. Schapiro] Yes, we believe so. We are
able to do the rule writing that has been

1:35:44.749,1:35:48.659
ongoing this year but to operationalize those
rules, we need additional staff.

1:35:48.659,1:35:54.219
[Mr. Connolly] We heard Mr. Katz in his testimony
say that simply having more SEC staffers do

1:35:54.219,1:36:00.510
the same thing would not protect investors
or promote capital formation. How many areas

1:36:00.510,1:36:06.599
of additional or new regulation are requiring
you to ramp up in terms of expert staffing?

1:36:06.599,1:36:13.070

[Ms. Schapiro] We obviously have derivatives,
hedge fund regulation, we are creating a new

1:36:13.070,1:36:19.239

whistleblower office although that is work
that we need more help with but it is not

1:36:19.239,1:36:25.400

unknown to us. We have to increase our oversight
of credit rating agencies under the Act and

1:36:25.400,1:36:29.610

we have to register a whole new category of
registrant in the municipal securities markets

1:36:29.610,1:36:36.610

called municipal advisors, so there are half
a dozen or so new areas for us to undertake

1:36:36.889,1:36:37.619

regulation.

1:36:37.619,1:36:44.019

[Mr. Connolly] Just listening to you tick
off that list, none of those sound like frivolous

1:36:44.019,1:36:51.019

burdensome additional pieces of regulation.
They sound like thoughtful additions to the

1:36:51.229,1:36:55.869

regulatory framework in light of the biggest
meltdown on Wall Street in 80 years. Would

1:36:55.869,1:36:57.530

you share that view?

1:36:57.530,1:37:01.860

[Ms. Schapiro] I do think all of these areas
are ones that needed to be addressed. As we

1:37:01.860,1:37:07.019

write the rules, we are working very hard
in collaboration with other regulators, but

1:37:07.019,1:37:11.459

also with the public, with investors and the
industry to make sure that we write as sensible

1:37:11.459,1:37:12.670

rules as we possibly can.

1:37:12.670,1:37:19.159

[Mr. Connolly] Mr. Katz, would you share that
view or is this just another example of having

1:37:19.159,1:37:24.610

simply "more SEC staffers doing the same
thing"?

1:37:24.610,1:37:29.999

[Mr. Katz] There is a quantitative nuance
difference in what I said and the way I think

1:37:29.999,1:37:36.999

you characterized it. The agency has an enormously
large number of new areas of regulatory authority.

1:37:41.209,1:37:47.010

The question is, when you go about regulating
hedge funds, or regulating municipal securities

1:37:47.010,1:37:53.159

markets, are you going to regulate hedge funds
exactly the way you regulate investment advisors,

1:37:53.159,1:37:57.989

which is arguably what they are, or investment
companies, which is sort of a close cousin?

1:37:57.989,1:38:03.320

My point is that if you look at the way the
Commission has regulated advisors, and regulated

1:38:03.320,1:38:09.499

mutual funds, it hasn't been terribly effective.
If you take the same approach for hedge funds,

1:38:09.499,1:38:16.179

yes, that would be doing the same thing in
those approaches, even if it is a new substantive

1:38:16.179,1:38:18.949

responsibility with a new category of registrant.

1:38:18.949,1:38:24.949

[Mr. Connolly] Would you say, Mr. Katz, that
some of the problem preceding the Wall Street

1:38:24.949,1:38:30.479

meltdown in September 2008, for example, had
to do frankly with the quality of the appointees,

1:38:30.479,1:38:34.050

namely a whole bunch of people who didn't
believe in regulation in the first place and

1:38:34.050,1:38:34.849

therefore, didn't do it?

1:38:34.849,1:38:41.849

[Mr. Katz] I have to tell you that there is
an old saying at the SEC that the Commissioners

1:38:48.749,1:38:55.749

decide the policy, but ultimately, it is the
staff that decides what it means and how it

1:38:57.219,1:39:02.010

gets done. One of the interesting things about
the SEC, the relationship between Commissioners

1:39:02.010,1:39:09.010

and the staff is that it is a close relationship.
Because the Commission is a bipartisan body,

1:39:09.889,1:39:15.650

you are always going to get five people with
diverging points of view, some of whom will

1:39:15.650,1:39:19.400

support the staff, some of whom will disagree
with the staff.

1:39:19.400,1:39:25.550

I can't think of an occasion where you had
five Commissioners on one side of the table

1:39:25.550,1:39:31.809

and the staff on the other side at loggerheads.
That doesn't happen. You invariably get

1:39:31.809,1:39:35.869

some supportive of Commissioners, some Commissioners
who are critical and you also get that divergence

1:39:35.869,1:39:39.329

of view among the staff.

1:39:39.329,1:39:42.969

Financial regulation is never a question of
identifying a single right answer.

1:39:42.969,1:39:46.670

[Mr. Connolly] Thank you, Mr. Katz. Unfortunately,
my time is up but I would love to pursue this

1:39:46.670,1:39:53.670

further, but I certainly believe that the
narrative that somehow SEC is treading into

1:39:54.219,1:40:01.219

waters it has no business treading into is
fallacious. If anything, we needed more people

1:40:01.729,1:40:06.340

guarding the hen house. If we are going to
talk about the fox guarding the hen house,

1:40:06.340,1:40:10.519

that may have been true in the 2008 period
of time but is not true today.

1:40:10.519,1:40:11.320

I thank the Chair.

1:40:11.320,1:40:15.650

[Mr. Katz] Excuse me, Mr. Chairman, if you
might indulge me? There is one very quick

1:40:15.650,1:40:17.840

point I wanted to make that Mr. Yarmoth brought
up.

1:40:17.840,1:40:18.150

[Mr. McHenry] Please.

1:40:18.150,1:40:23.639

[Mr. Katz] That was the question of the consolidated
supervised entities regulatory process at

1:40:23.639,1:40:28.789

the SEC. There is a lot of confusion about
that. There was a voluntary process. The reason

1:40:28.789,1:40:34.139

it was a voluntary process is not because
of a deregulatory attitude at the SEC; it

1:40:34.139,1:40:40.809

is because the Commission sought from Congress
the authority to make it a mandatory process

1:40:40.809,1:40:47.809

as part of the Gramwich Bill, which eliminated
glass eagle.

1:40:48.809,1:40:55.229

Congress explicitly prohibited the Commission
from making it a mandatory process. The Commission

1:40:55.229,1:40:57.989

had a weak hand, it played the weak hand as
best it could.

1:40:57.989,1:40:59.570

[Mr. Platts] Thank the gentleman.

1:40:59.570,1:41:01.679

I will yield five minutes to myself.

1:41:01.679,1:41:07.199

I chair the Subcommittee on Government Organization,
Efficiency and Financial Management, so I

1:41:07.199,1:41:14.199

am going to focus on a related but slightly
different area that relates to our jurisdiction.

1:41:15.320,1:41:20.300

I had the privilege of chairing the same Subcommittee
from 2003 to 2007.

1:41:20.300,1:41:26.749

We had a subcommittee hearing July 2003 about
the SEC, about financial management at the

1:41:26.749,1:41:33.059

SEC, about internal controls and we heard
testimony at that point they had just put

1:41:33.059,1:41:39.190 the Chaitman Decl. Pg 59 of 73

in a new financial management system in 2002.
In the testimony of the Executive Director,

1:41:39.190,1:41:45.699
James McConnor at the time in July 2003, he
said we have this new system and we are going

1:41:45.699,1:41:52.699
to be certified basically in January 2004
for audited financial statements. Here we

1:41:53.940,1:42:00.940
are seven years later, plus, and we are now
talking about the same thing, a new system

1:42:01.619,1:42:08.619
using DOT Enterprise system to put in place
a new system.

1:42:10.769,1:42:17.079
Chairman Schapiro, I appreciate the changes
you have made, the COO, the new Chief Operating

1:42:17.079,1:42:24.079
Officer and other leadership changes and systemic
changes within the SEC. Why should the American

1:42:24.979,1:42:30.679
people believe when we were told seven years
ago we got it right and we were going to be

1:42:30.679,1:42:32.289
able to go forward; how is it different today?

1:42:32.289,1:42:37.139
[Ms. Schapiro] Thank you. My understanding
is that was the Momentum system, I believe,

1:42:37.139,1:42:42.869
and it was deployed nine or ten years ago
and in the beginning, it did meet the agency's

1:42:42.869,1:42:49.010
needs, but then over time, the agency deferred
upgrading over many years and as a result,

1:42:49.010,1:42:54.289
it began to lack the functionality that was
necessary to do the job. Gaps were created,

1:42:54.289,1:43:01.289
work arounds were developed and as a result,
the SEC ended up with two material weaknesses

1:43:01.309,1:43:06.360
in its controls over financial reporting in
our audit which is a disgraceful position

1:43:06.360,1:43:09.800
for the Securities and Exchange Commission
to be in.

1:43:09.800,1:43:15.429
With our new Chief Operating Officer, our
new Chief Financial Officer and our new Information

1:43:15.429,1:43:20.559
Officer, we made the decision that rather
than incur the risks of developing a new system

1:43:20.559,1:43:26.619
at the SEC, perhaps not really a core competency
for us, that we would be better served by

1:43:26.619,1:43:28.659
outsourcing financial management.

1:43:28.659,1:43:33.900
We went through a process and identified the
Department of Transportation, which is an

1:43:33.900,1:43:39.699

authorized Federal Share Service provider
used by the GAO for their financial management

1:43:39.699,1:43:44.900

system, and made the decision that the best
way for us to remediate our material weaknesses,

1:43:44.900,1:43:49.550

generate the kind of reporting that we need,
minimize all these manual workarounds and

1:43:49.550,1:43:54.479

all of this would be to outsource to them.
I think it is the right decision for the taxpayer,

1:43:54.479,1:43:56.550

I think it is the right decision for the SEC.

1:43:56.550,1:44:01.650

[Mr. Platts] The follow-up related to that
is, in the audit that was done at the end

1:44:01.650,1:44:08.650

of this past year, a clean opinion, but failure
to sign off on the internal controls, two

1:44:09.449,1:44:11.119

related questions.

1:44:11.119,1:44:17.690

First, how would you describe the internal
effort to get the clean opinion other than

1:44:17.690,1:44:23.489

the internal controls and I ask in the sense
of in July 2003, SEC said it was a heroic

1:44:23.489,1:44:27.780

end of the year effort, it wasn't because
we had a system in place, here is the data,

1:44:27.780,1:44:32.780

we are ready to go. Was there again a heroic
end of the year effort to be able to have

1:44:32.780,1:44:33.150

that audit?

1:44:33.150,1:44:37.749

[Ms. Schapiro] I think there were some heroics
involved. I can't compare to 2003 but I

1:44:37.749,1:44:42.420

think we did put together a senior team of
people to really shepherd the process through.

1:44:42.420,1:44:47.059

They were diligent and they stuck with it,
but they are also very much onboard for this

1:44:47.059,1:44:48.940

decision to outsource.

1:44:48.940,1:44:55.530

[Mr. Platts] Interim controls, not until last
year in Dodd-Frank did it require the auditor

1:44:55.530,1:45:00.170

to sign off on the internal controls. For
almost 20 years under the Federal Managers

1:45:00.170,1:45:07.170

Financial Integrity Act adopted in 1982, actually
over 20 years, that we have to have strong

1:45:10.510,1:45:15.719

internal controls. Although that wasn't
required to be signed off, I assume you are

1:45:15.719,1:45:20.539 the Chaitman Decl. Pg 61 of 73

really conscious of the fact that it wasn't
a new requirement that you have good internal

1:45:20.539,1:45:24.570
controls, it was just a new requirement that
it be signed off by the auditor and whoever

1:45:24.570,1:45:29.709
has been overseeing those internal control
systems, clearly were not fulfilling their

1:45:29.709,1:45:30.380
responsibilities?

1:45:30.380,1:45:36.670
[Ms. Schapiro] Absolutely, and under our Chief
Operating Officer, we will deal both with

1:45:36.670,1:45:40.170
the audit issues with respect to internal
controls, but also the attendant business

1:45:40.170,1:45:44.940
processes, so it is not just a technology
answer for us. It is going to have to be business

1:45:44.940,1:45:47.249
process, free engineering process as well.

1:45:47.249,1:45:51.349
[Mr. Platts] I am going to try to squeeze
in two more questions in 20 seconds.

1:45:51.349,1:45:57.900
In your testimony, you talk about the follow-on
person that you have for the audit recommendations

1:45:57.900,1:46:04.900
of your IG and GAO. In your testimony, you
state that you appointed an audit follow-up

1:46:05.940,1:46:10.479
official and empowered her to ensure that
agency managers are held accountable for timely

1:46:10.479,1:46:11.809
and appropriate follow up.

1:46:11.809,1:46:14.610
How are they being held accountable? One thing
that frustrates me is when we find something

1:46:14.610,1:46:19.630
that went wrong and I have asked for many
years now, was anyone disciplined, was anyone

1:46:19.630,1:46:24.840
fired for not doing what they were supposed
to do? In what way are they being held accountable?

1:46:24.840,1:46:28.929
[Ms. Schapiro] We are very closely tracking
audit recommendations, both from GAO and from

1:46:28.929,1:46:34.010
our Inspector General. I can tell you that
in my two years as Chairman, we have successfully

1:46:34.010,1:46:40.349
closed 350 Inspector General recommendations
compared to 190 in the prior two years. We

1:46:40.349,1:46:47.349
are aggressive about doing it and I will tell
you that in the Inspector General's semiannual

1:46:47.349,1:46:54.199
report, he also talks about our progress with
respect to closing recommendations and whether

1:46:54.199,1:46:59.099 the Chaitman Decl. Pg 62 of 73

there has been any management disagreement
with his recommendations. He is quite on top

1:46:59.099,1:46:59.809
of it and quite transparent.

1:46:59.809,1:47:04.309
[Mr. Platts] I think that is critical going
forward. My subcommittee is especially going

1:47:04.309,1:47:09.619
to look at staying on top of those recommendations
and special internal controls. It goes to

1:47:09.619,1:47:14.400
the broader issue discussed here about ethics
and if you don't have internal controls,

1:47:14.400,1:47:19.440
that is the foundation for not just good financial
management, but for a good ethics environment.

1:47:19.440,1:47:20.440
[Ms. Schapiro] I agree completely.

1:47:20.440,1:47:25.780
[Mr. Platts] We, as a subcommittee, and partner
with Chairman McHenry here today, that is

1:47:25.780,1:47:27.119
what we are going to be looking at.

1:47:27.119,1:47:34.119
I will yield back and yield now to Ms. Speier
from California for five minutes.

1:47:38.659,1:47:40.469
[Ms. Speier] Thank you, Mr. Chairman.

1:47:40.469,1:47:44.119
I thank you all for your participation in
this hearing. I was particularly impressed

1:47:44.119,1:47:47.630
by the testimony of Mr. Katz and Mr. Crimmins.

1:47:47.630,1:47:54.630
I am somewhat surprised because I am looking
at the title of the hearing and the sign above

1:47:55.469,1:48:00.599
the Chairman's head that reads, "Can American
Taxpayers Trust Today's SEC to Manage Itself

1:48:00.599,1:48:07.599
and Do Its Job." I thought it might be interesting
to substitute Congress and ask the same question

1:48:08.579,1:48:12.719
and see if we would fare as well.

1:48:12.719,1:48:16.429
Chairman Schapiro, having served over two
years on the Financial Services Committee,

1:48:16.429,1:48:22.719
I have watched you and I think you are truly
committed to doing the right thing. Before

1:48:22.719,1:48:29.719
you came back as Chair, under Chairman Cox,
the number of actual enforcement actions at

1:48:32.179,1:48:37.709
the SEC was reduced by 80 percent and the
number of disgorgement actions were reduced

1:48:37.709,1:48:44.709
by 60 percent -- a stunning failure at a time
when all the mischief was going on with Wall

1:48:46.119,1:48:46.369
Street.

1:48:46.119,1:48:53.119
We look back at the savings and loan crisis
and we recognize that referrals from various

1:48:54.769,1:49:01.679
regulators, there were 10,000 of them, and
of those 10,000, there were 1,000 that turned

1:49:01.679,1:49:07.999
into convictions and 500 people went to jail.
These were CEO level folks that went to jail.

1:49:07.999,1:49:12.479
The American people are looking at us, looking
at Congress, looking at you and saying, who

1:49:12.479,1:49:19.479
is going to jail? Who is being charged? The
truth is there hasn't been a lot.

1:49:19.659,1:49:26.659
My first question is, have you made any referrals
to the Justice Department, to the U.S. Attorney,

1:49:26.900,1:49:29.090
as a result of the Wall Street meltdown?

1:49:29.090,1:49:33.679
Ms. Schapiro. I am confident that we have.
I guess I would like to supplement the record,

1:49:33.679,1:49:38.380
if I might, on that. I just don't know the
numbers or the details about it because, as

1:49:38.380,1:49:43.139
you know, we don't have criminal prosecution
authority, although we have continued to bring

1:49:43.139,1:49:49.030
a relatively high number of cases and some
very large impact cases coming out of the

1:49:49.030,1:49:50.689
financial crisis in the past year.

1:49:50.689,1:49:57.349
[Ms. Speier] So you will get back to the committee
and actually tell us how many referrals you

1:49:57.349,1:49:57.619
have made?

1:49:57.619,1:49:58.489
[Ms. Schapiro] I would be happy to.

1:49:58.489,1:50:05.489
[Ms. Speier] The CEO of Galian is being tried
now. Mr. Gupta who is a director of a significant

1:50:08.519,1:50:14.380
Wall Street firm, evidently is being looked
at as having shared insider information, although

1:50:14.380,1:50:18.639
he didn't appear to have acted on it. Have
any actions by the SEC been taken against

1:50:18.639,1:50:19.630
those two individuals?

1:50:19.630,1:50:26.630
[Ms. Schapiro] We filed a proceeding against
Mr. Gupta last week and we have filed multiple

1:50:26.829,1:50:31.269
proceedings coming out of the Galian investigation

over the course of the last six months the Chairman Decl. Pg 64 of 73

1:50:31.269,1:50:31.789
so.

1:50:31.789,1:50:38.789
[Ms. Speier] In 2004 and 2005, the GAO said
to the SEC that it should take a look at and

1:50:40.530,1:50:47.260
close its revolving door. The SEC then reported
back to the GAO that it had done that, although

1:50:47.260,1:50:53.349
the GAO now says that never happened. The
reverse situation of Mr. Becker is the fact

1:50:53.349,1:51:00.349
that you have staff that work within the SEC
and then they are lured away by lucrative

1:51:01.840,1:51:08.170
salaries outside and oftentimes, the people
that are lured away are lured away by the

1:51:08.170,1:51:12.150
companies that they were actually investigating.

1:51:12.150,1:51:17.380
We need to do something about the lack of
a revolving door and I want to know, first

1:51:17.380,1:51:23.800
of all, have you made any policy changes in
an attempt to deter these revolving door practices?

1:51:23.800,1:51:30.599
[Ms. Schapiro] We have instituted requirements
that senior employees seek ethics counseling

1:51:30.599,1:51:37.599
before they leave the agency. We require all
employees to have a post employment briefing

1:51:38.070,1:51:42.380
so they don't violate ethics rules when
they are leaving. Of course we are subject

1:51:42.380,1:51:47.309
to the government-wide restrictions and we
have some unique to the SEC restrictions,

1:51:47.309,1:51:52.749
but our Inspector General in looking at a
specific revolving door incident has given

1:51:52.749,1:51:58.349
us last week some additional recommendations
for tightening up our rules. We are going

1:51:58.349,1:52:01.119
to look at those very seriously and I hope
to go forward with them.

1:52:01.119,1:52:08.119
[Ms. Speier] What about a cooling off period?
Why not require that persons within the Commission

1:52:08.579,1:52:15.579
that have the authority to make determinations
and were investigating are not allowed to

1:52:17.219,1:52:22.300
be hired by those who they have investigated
for a period of two years?

1:52:22.300,1:52:29.110
[Ms. Schapiro] I think there is a lot of appeal
to that. The only hesitation I have is that

1:52:29.110,1:52:33.959

we are so dependent on getting people to us, even if it is just for a few years

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1:52:33.959,1:52:38.849
just to bring us current industry expertise,
we have to get the balance right.

1:52:38.849,1:52:42.170
[Ms. Speier] I don't disagree, because that
is precisely the problem.

1:52:42.170,1:52:45.539
[Mr. McHenry] The gentlelady's time has
expired.

1:52:45.539,1:52:50.139
I recognize myself for five minutes.

1:52:50.139,1:52:54.280
Chairman Schapiro, I want to get this out
of the way. I know there have been a number

1:52:54.280,1:53:01.280
of questions about the David Becker conflict
of interest question. I just have a couple

1:53:01.449,1:53:07.550
of questions, yes or no. I want to proceed
with it because I have some other issues I

1:53:07.550,1:53:10.389
do want to touch on beyond this.

1:53:10.389,1:53:16.849
After David Becker told you that he received
proceeds of a closed Madoff account, did you

1:53:16.849,1:53:20.869
suggest that he recuse himself from the Madoff
case, yes or no?

1:53:20.869,1:53:27.219
[Ms. Schapiro] I am sorry, the premise isn't
exactly right. My recollection is that he

1:53:27.219,1:53:34.219
told me that his mother had a Madoff account
before she died and that it had been closed.

1:53:35.880,1:53:42.030
I don't honestly recall whether he told
me he had received proceeds or not. He may

1:53:42.030,1:53:46.229
well have, I just can't recall. As you know,
I haven't been able to look at anything.

1:53:46.229,1:53:50.729
[Mr. McHenry] But he brought this up that
he received proceeds from a Madoff account?

1:53:50.729,1:53:54.239
[Ms. Schapiro] He brought up that his mother
had had a Madoff account.

1:53:54.239,1:53:58.380
[Mr. McHenry] In light of that, did you suggest
he recuse himself?

1:53:58.380,1:54:00.409
[Ms. Schapiro] No, I didn't.

1:54:00.409,1:54:06.229
[Mr. McHenry] Did you suggest that he settle
with the Trustee as other Madoff investors

1:54:06.229,1:54:07.199
were doing at the time?

1:54:07.199,1:54:08.820
[Ms. Schapiro] No.

1:54:08.820,1:54:15.059

[Mr. McHenry] Did you suggest that Mr. Becker disclose his interest to other SEC staff or

1:54:15.059,1:54:17.400

Commissioners who relied on his advice?

1:54:17.400,1:54:22.630

[Ms. Schapiro] I did not. I expected him to go to the Ethics Office and get ethics counsel

1:54:22.630,1:54:23.900

and follow their advice.

1:54:23.900,1:54:30.900

[Mr. McHenry] You are aware that the Ethics Counsel of the SEC reported to the General

1:54:31.639,1:54:31.889

Counsel?

1:54:31.639,1:54:34.559

[Ms. Schapiro] Yes, although the Ethics Officer is a career employee.

1:54:34.559,1:54:37.510

[Mr. McHenry] But his direct report.

1:54:37.510,1:54:38.989

[Ms. Schapiro] Yes.

1:54:38.989,1:54:43.550

[Mr. McHenry] Did you suggest that Becker do any research to determine the amount or

1:54:43.550,1:54:46.280

the character of interest that he had?

1:54:46.280,1:54:47.110

[Ms. Schapiro] No.

1:54:47.110,1:54:53.570

[Mr. McHenry] Later when Becker was providing advice about the net equity evaluation method,

1:54:53.570,1:54:59.530

did you direct Mr. Becker to take any actions with respect to this potential conflict of

1:54:59.530,1:54:59.780

interest?

1:54:59.530,1:55:03.670

[Ms. Schapiro] No, because it didn't occur to me that this long ago closed account would

1:55:03.670,1:55:06.110

be in any way impacted, it just didn't occur to me.

1:55:06.110,1:55:10.179

[Mr. McHenry] So he didn't disclose to you that he was, in fact, the trustee who closed

1:55:10.179,1:55:11.429

the account?

1:55:11.429,1:55:12.849

[Ms. Schapiro] I don't recall.

1:55:12.849,1:55:19.070

[Mr. McHenry] I understand. I am just trying to get to the heart of this. This raises major

1:55:19.070,1:55:26.070

questions and I think you can understand the public's interest and the investors' interest.

1:55:26.920,1:55:33.920

To that same degree, when Mr. Becker was filing

briefs in court that took recommendations from the Chairman Decl. Pg 67 of 73

1:55:34.510,1:55:40.689
in terms of the net equity position valuation
method, you didn't direct Mr. Becker to

1:55:40.689,1:55:41.159
recuse himself?

1:55:41.159,1:55:41.900
[Ms. Schapiro] No.

1:55:41.900,1:55:46.969
[Mr. McHenry] Okay. I just wanted to get those
out of the way. Obviously we care deeply about

1:55:46.969,1:55:52.679
transparency and disclosure both here in Congress
and with regulators.

1:55:52.679,1:55:59.679
Chairman Schapiro, Mr. Risinger, thank you
for your public service, but we need to get

1:56:03.559,1:56:08.340
to the heart of this issue. I think that is
why we are asking these questions today and

1:56:08.340,1:56:08.880
why I am.

1:56:08.880,1:56:12.329
[Ms. Schapiro] I agree, Mr. Chairman. It is
why I have asked the Inspector General to

1:56:12.329,1:56:14.380
do a review, so we can get all the information.

1:56:14.380,1:56:20.840
[Mr. McHenry] The point is you said you wish
you had known then what you know now and had

1:56:20.840,1:56:27.239
you asked any of these questions, you would
have known it then. That is at the heart of

1:56:27.239,1:56:34.239
this issue. That is what is disappointing
and of great concern in terms of public policy.

1:56:37.699,1:56:44.699
Ms. Chaitman, in dealing with this Madoff
valuation question, I understand the insurance

1:56:45.469,1:56:52.469
piece, I do, would it have changed your dealings
with SEC's legal counsel had you known that

1:56:53.719,1:56:56.849
Mr. Becker was the trustee of a Madoff account?

1:56:56.849,1:57:03.849
[Ms. Chaitman] If I had know that, I would
have, myself, demanded that he recuse himself

1:57:04.610,1:57:11.610
and that the SEC take steps to clarify its
position because as I say, both Congressman

1:57:12.459,1:57:17.809
Garrett and I believe that the SEC has taken
an illegal position in supporting SIPC. If

1:57:17.809,1:57:22.360
I had know that Mr. Becker had a personal
interest, I certainly would have asked Ms.

1:57:22.360,1:57:22.780
Schapiro to do something about it.

1:57:22.780,1:57:24.949

1:57:24.949,1:57:30.329

Mr. Katz, this raises a larger management issue. We are talking about capital formation,

1:57:30.329,1:57:35.889

we are trying to be the world's markets, which we have been. When you have a dysfunctional

1:57:35.889,1:57:42.889

agency like this with these management problems that you described, you said the SEC has never

1:57:46.400,1:57:51.439

engaged in serious self examination of its performance or used appropriate measures of

1:57:51.439,1:57:53.389

performance. Is that still the case?

1:57:53.389,1:58:00.389

[Mr. Katz] Not having seen this Boston consulting group report that is apparently due out, I

1:58:00.900,1:58:05.519

think yes, that is the case. It has been a long time since the agency took a hard look

1:58:05.519,1:58:06.590

at itself in the mirror.

1:58:06.590,1:58:11.130

[Mr. McHenry] My time has expired. With that, I recognize Ms. Maloney for five minutes.

1:58:11.130,1:58:16.869

Votes have been called on the Floor, we have 11 minutes remaining in the votes, so I would

1:58:16.869,1:58:21.889

defer to my colleagues on that side of the aisle if they want to work something out in

1:58:21.889,1:58:23.469

terms of time.

1:58:23.469,1:58:30.469

The gentlelady is recognized now for five minutes.

1:58:34.789,1:58:37.510

*Mrs. Maloney. First of all, I would like to welcome all the panelists and thank the

1:58:37.510,1:58:43.599

Chairman for this important hearing. Certainly honesty and transparency is very important

1:58:43.599,1:58:44.309

in government.

1:58:44.309,1:58:51.309

I would like to get further clarification from Chairman Schapiro. As I understand, the

1:58:51.860,1:58:58.860

controversy around Mr. Becker's alleged conflict of interest is about an SEC decision

1:59:00.019,1:59:07.019

that appears to be against his financial interest. As I understand it, prior to Mr. Becker's

1:59:09.769,1:59:14.400

return to the SEC, he was working at a private law firm, correct?

1:59:14.400,1:59:16.989

[Ms. Schapiro] Yes, he was.

1:59:16.989,1:59:23.989 the Chaitman Decl. Pg 69 of 73

*Mrs. Maloney. When he arrived at the SEC, you testified he took steps to notify both

1:59:24.739,1:59:31.739
you and the SEC's Ethics Counsel of his inheritance from his mother which had been

1:59:32.570,1:59:38.650
liquidated long before Madoff's ponzi scheme had been discovered, correct?

1:59:38.650,1:59:41.090
[Ms. Schapiro] That is my understanding.

1:59:41.090,1:59:47.499
*Mrs. Maloney. The ethics official said it was okay for him to work on Madoff-related

1:59:47.499,1:59:52.360
issues. That is what is in the memo and information that I read, that the Ethics Committee is

1:59:52.360,1:59:57.579
there to be consulted, he consulted them and they said there was no conflict, that is fine,

1:59:57.579,2:00:00.689
go to work. Is that your recollection?

2:00:00.689,2:00:02.030
[Ms. Schapiro] Yes, I believe.

2:00:02.030,2:00:06.729
*Mrs. Maloney. Your memory is the same as the Ethics Committee. Chairman Schapiro, it

2:00:06.729,2:00:13.729
appears that the basic question the SEC faced was whether to support an asset valuation

2:00:15.420,2:00:22.420
method used by the Madoff Trustee called the cash-in, cash-out method, or a different evaluation

2:00:24.420,2:00:30.539
method used by several law firms called the last statement method. Is that correct?

2:00:30.539,2:00:31.519
[Ms. Schapiro] Yes.

2:00:31.519,2:00:38.519
*Mrs. Maloney. Under the first method, Mr. Becker's inheritance would be subject to

2:00:39.019,2:00:46.019
clawback litigation and under the second method, his inheritance would not have been subject

2:00:46.920,2:00:53.920
to clawback. The SEC choose to support the first, the decision was against the financial

2:00:55.979,2:01:02.979
interest of Mr. Becker. This meant that the Trustee could sue Mr. Becker and his brothers

2:01:03.280,2:01:08.130
to recover some of his mother's inheritance which is exactly what happened, correct?

2:01:08.130,2:01:14.159
[Ms. Schapiro] That is right. The SEC did take the position that was cash-in, cash-out

2:01:14.159,2:01:21.159
in constant dollars to reflect that some very elderly people who had long held Madoff accounts

2:01:21.539,2:01:27.360

would be able to get some more money from the Chairman Decl. Pg 70 of 73
SIPC under that formulation, but it was not

2:01:27.360,2:01:34.360
the final statement approach that you mentioned
that would have potentially prevented the

2:01:35.829,2:01:36.209
clawback.

2:01:36.209,2:01:43.209
*Mrs. Maloney. But the decision was to allow
the clawback, so I assume he participated

2:01:43.559,2:01:46.599
in a decision allowing the clawback that was
against his financial interest?

2:01:46.599,2:01:51.969
[Ms. Schapiro] The decision to clawback is
one of the Trustee, not of the SEC.

2:01:51.969,2:01:55.780
*Mrs. Maloney. The SEC did not make that decision,
the Trustee made that decision?

2:01:55.780,2:01:56.969
[Ms. Schapiro] The Trustee makes that decision.

2:01:56.969,2:02:02.959
*Mrs. Maloney. The Trustee makes that decision,
but it was a decision that affected Mr. Becker.

2:02:02.959,2:02:03.789
[Ms. Schapiro] Yes.

2:02:03.789,2:02:10.789
*Mrs. Maloney. I would like either you or
Mr. Crimmins to answer. Basically, Mr. Becker

2:02:12.369,2:02:19.369
or the SEC sided with the Madoff Trustee.
The SEC actually took action that was potentially

2:02:20.219,2:02:26.429
detrimental to Mr. Becker's financial interest
and it exposed him to a potential litigation

2:02:26.429,2:02:33.429
worth roughly \$1.5 million because that was
the proceeds, correct, in addition to the

2:02:33.499,2:02:40.479
\$500,000. Everybody seems to be criticizing
Mr. Becker, but Mr. Becker and the SEC's

2:02:40.479,2:02:45.369
decision appears to have been completely against
his financial interest.

2:02:45.369,2:02:50.510
I understand you have an IG report coming
out and that eventually will clarify things

2:02:50.510,2:02:57.510
more, but in first reading the information,
it appears that the decision made was against

2:02:58.459,2:03:04.559
him and against his financial interest and
what he or the SEC thought was the right way

2:03:04.559,2:03:04.809
to go.

2:03:04.780,2:03:11.780
If the SEC had supported the banks' interpretation
or the law firm's interpretation instead

2:03:14.969,2:03:21.530
of the Trustee's interpretation, Mr. Becker

might not have had any exposure at the time the Chairman Decl. Pg 71 of 73

2:03:21.530,2:03:25.829
that correct? Mr. Crimmins?

2:03:25.829,2:03:32.829
[Mr. Crimmins] The point is that the \$500,000
that Dorothy Becker invested was going to

2:03:34.809,2:03:41.429
come back. The \$1.5 million, as you indicated,
was the Madoff fictitious profit was going

2:03:41.429,2:03:47.999
to Picard's claim as the Trustee, independent
reporting to the court, not to the SEC, that

2:03:47.999,2:03:52.729
dealt with a little bit of difference is whether
there should be some modest rate of return,

2:03:52.729,2:03:56.039
whether there should be some adjustment for
inflation.

2:03:56.039,2:04:00.570
That is still not finally determined. A month
after Becker has left the agency, it is a

2:04:00.570,2:04:05.949
small amount and to an individual who was
compensated at \$3 million a year, roughly,

2:04:05.949,2:04:11.300
and gave that up to go work in the public
service, it is totally inconsequential and

2:04:11.300,2:04:16.199
I would respectfully submit to the Subcommittee,
be a distraction.

2:04:16.199,2:04:21.389
*Mrs. Maloney. May just complete with one
observation for two seconds.

2:04:21.389,2:04:27.369
Basically, if someone in Mr. Becker's position
wanted to help himself financially, he would

2:04:27.369,2:04:32.510
have taken the opposite point of view than
the one that he took or the one that the SEC

2:04:32.510,2:04:32.829
took.

2:04:32.829,2:04:36.199
[Mr. McHenry] The gentlelady's time has
expired. We have votes on the Floor, Madam.

2:04:36.199,2:04:38.219
*Mrs. Maloney. I look forward to the IG's
report.

2:04:38.219,2:04:45.219
[Mr. McHenry] I think we all do. I appreciate
the gentlelady wrapping up. We do have votes

2:04:45.219,2:04:45.610
on the Floor.

2:04:45.610,2:04:46.719
I want to thank the panel.

2:04:46.719,2:04:51.429
[Ms. Schapiro] Mr. Chairman, I am so sorry,
I wanted to just say one thing. I want to

2:04:51.429,2:04:55.919
make it very clear, I don't recall specifically
whether Mr. Becker told me he had inheritance

2:04:55.919,2:05:02.599

from the account or whether his mother had
had an account and I made that assumption.

2:05:02.599,2:05:06.900

Because it is two years ago, I just don't
recall. I want to be so clear about that.

2:05:06.900,2:05:10.959

[Mr. McHenry] We will let the record reflect
that.

2:05:10.959,2:05:12.539

[Ms. Schapiro] Thank you.

2:05:12.539,2:05:19.090

[Mr. McHenry] Certainly. I think it is important
the record accurately reflect what happened.

2:05:19.090,2:05:23.669

The findings of this hearing are very important.
We are interested in management issues. The

2:05:23.669,2:05:30.669

members certainly took a specific direction
today dealing with this conflict of interest

2:05:30.679,2:05:37.679

of Mr. Becker, the General Counsel for the
SEC because of the fact he was a trustee of

2:05:38.150,2:05:45.150

a Madoff account a few years before, and the
decision, as Ms. Chaitman mentions, that was

2:05:46.039,2:05:53.039

a very different valuation than was existent
under law and the decision he made that in

2:05:56.459,2:06:02.340

some ways benefited him disproportionately
than the other two methods.

2:06:02.340,2:06:09.340

In terms of the budget, I think it is appropriate
that SEC have a sufficient budget and we have

2:06:10.610,2:06:15.610

strong management practices to make sure there
is transparency and disclosure, safety and

2:06:15.610,2:06:19.150

soundness in investing in our markets.

2:06:19.150,2:06:26.139

In the wake of the Enron scandal, in February
2003, the SEC was given the largest spending

2:06:26.139,2:06:33.139

increase in its history. The GAO said in testimony
before this subcommittee in 2003, it was a

2:06:33.239,2:06:40.239

45 percent increase at that time. This was
supposed to prevent a future crisis, yet Madoff

2:06:41.749,2:06:48.749

still occurred and the excuses cannot always
be based on money. We would ask that we tighten

2:06:50.139,2:06:56.300

up management practices, do what is appropriate
in terms of bringing technology to the fore

2:06:56.300,2:07:02.979

and do the best possible of any regular.

2:07:02.979,2:07:09.979

It isn't wrong to use a crisis to request
more. It is wrong to use a crisis just to

2:07:10.320,2:07:16.300

request more money. So with that, the committee
stands adjourned. Thank you for your testimony.

2:07:16.300,2:07:16.550

[Whereupon, at 3:40 p.m., the subcommittee
was adjourned]